

## Shay Assad Gets DCMA to Hold Hands with DCAA and Promise to Play Nice

Written by Nick Sanders

Wednesday, 12 January 2011 00:00

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It's been a favorite claim of Pentagon critics seeking to increase oversight of DOD contractors that the Defense Contract Management Agency (DCMA) Contracting Officers and the Defense Contract Audit Agency (DCAA) auditors don't work well together. We've posted on this topic several times—notably [this gem](#) from 2009 in which we reported that the Commission on Wartime Contracting, “thinks DCMA has failed in its oversight role and should possibly merge with DCAA in order to eliminate ‘dysfunctionality’ between the two DOD agencies.”



We reported that—

The Commission called for the dysfunctional relationship between DCAA and DCMA to come to an end and, according to the report, put the onus on DCMA to resolve the problems. Co-Chair Shays was quoted as saying, ‘both of you up there, you're on the same team, but it doesn't sound like it and it doesn't look like it. ... With no disrespect to [DCMA], we think there needs to be more adjustment on DCMA's part than on DCAA's part. I think that's fairly clear.’ Neither Shays nor his Co-Chair Michael Thibault (former Deputy Director of DCAA) addressed recent GAO findings on DCAA's lack of audit quality and independence.

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As part of that same article, we also noted that then-Director of DCAA April Stephenson called for “accountability” for DCMA’s disposition of DCAA audit recommendations—which was a shift from her previous position that all of DCAA’s recommendations should be mandatory for DCMA to implement. Readers may recall it was under Ms. Stephenson’s watch that DCAA promulgated audit guidance (MRD 09-PAS004(R)) directing its auditors to file a report that may be forwarded to the DOD Inspector General when (in the view of the auditor) “a contracting officer ignores a DCAA audit report and takes an action that is grossly inconsistent with procurement law and regulation....”

Even so, we were never convinced that the relationship between the two agencies was as dysfunctional as the critics asserted. Attributing DCMA’s lack of action on DCAA recommendations to a dysfunctional relationship ignored the elephant in the room—which was the timeliness and quality of DCAA’s audit reports. We would assert that it would be unreasonable to expect a DCMA Contracting Officer to take action on audit findings and/or recommendations that were poorly worded, or insufficiently supported, or that were clearly contrary to existing regulations. In all candor, we would apply those descriptions to many—perhaps the majority—of the hundreds of DCAA audit reports we have reviewed in the past ten years. In other words, while critics focused on the easy target (DCMA’s lack of action) they simply ignored the tough problem (DCAA’s [lack of quality audit reports](#)). And that was the story.

Regardless of whether the two DOD oversight agencies were as dysfunctional as many alleged, it became clear that they needed to shake hands and commit to a better working relationship. The Honorable Shay Assad, Director, Defense Procurement and Acquisition Policy (DPAP), emerged in late 2009 as a mediator between the two agencies. In December 2009 Mr. Assad [issued a memo](#) outlining a “process for resolving disagreements” between the two agencies—though at the time we noted that the memo failed to address many significant areas of potential disagreement. We wrote—

The memo seems to omit any discussion of how DCMA and DCAA would resolve differences of opinion regarding the adequacy of contractor internal control ‘business systems’ or noncompliances with Cost Accounting Standards or allegations of ‘defective pricing’. Thus, it focuses on a subset of oversight interactions but not the entire universe of activity. And the omitted areas are the areas the critics have pointed at, such as the adequacy of contractor control systems.

Still and nonetheless, it was tangible progress and appeared to appease some of the more

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vocal critics. And recently, more than a year after the previous memo, came [another memo](#) from Mr. Assad's office with a long title that included the phrase, "Align Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) Processes to Ensure Work is Complementary". The ostensible goal of the memo was to implement Dr. Ash Carter's September 2010

[call](#) for "better work alignment and reduction in DCMA/DCAA overlap".

(Readers may recall Dr. Carter's directive was subtly different. He wrote that the Director of DPAP was to "develop guidance that will clearly spell out the roles and responsibilities" of DCMA and DCAA in order to "avoid duplication and overlapping roles." As you review the memo, ask whether Dr. Carter's directive was actually implemented.)

The latest Assad Alignment Memo reiterated a couple of things that will be old news to readers of this site. The memo discusses DCAA's [new thresholds](#) for performing audits of contractor cost proposals, and [changes](#) to how DOD will implement Forward Pricing Rate Agreements (FPRAs). But there were some new items as well. They include—

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DCAA will no longer perform Financial Capability Reviews. These reviews will now be performed solely by DCMA during the Pre-Award Survey process. The memo reported that, "DCMA has established a Financial Analysis Division under its Cost and Pricing Center and is adding additional staff to meet the increased workload requirements."

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DCAA will no longer participate in DCMA's review of Contractor Purchasing Systems. The memo stated that, "DCMA has a Purchasing System Review Center under its Contracting Division and is increasing both the number of analysts assigned to the Center and reviews performed per year to meet the increased workload requirements." However, the memo noted that, "DCAA will continue to audit subcontract costs as part of its incurred cost audits and [will] report any deficiencies found in the contractor's system to the ACO for resolution."

And that's it. Oh, the memo also noted that details regarding oversight of other internal control

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systems will be covered as part of the DFARS “business systems rule” that is [currently pending](#). It stated—

When implemented, the revised policy will clearly define DCMA/DCAA responsibility with respect to each Agency’s role in assessing and determining status of the contractor’s Accounting, Estimating, Earned Value Management, Material Management and Accounting, Purchasing, and Property Systems.

Well, we looked pretty closely at the proposed revision to the DFARS rules on contractor systems. We even [provided](#) a comment or two to the DAR Council for consideration. And in our opinion, we didn’t see very much “clear” definition regarding each agency’s role in the process.

So we look forward to yet another memo from DPAP, one that clearly spells out the contractor oversight roles and responsibilities of each agency. And we note that there is much more to contractor oversight than reviewing business systems (though obviously that’s a significant part of the oversight process). We await clarity regarding resolution of Cost Accounting Standards administrative matters (such as Disclosure Statements that aren’t timely determined to be adequate and compliant, or cost impact proposals that sit for years and years without any DOD action), timely resolution of allegations of “defective pricing” violations of the Truth-in-Negotiation Act, reviews of Contractor Disclosures of violations of its Ethics and Business Conduct policy, and the like.

The two DOD oversight agencies aren’t really dysfunctional. But the processes by which the DOD effectuates its oversight are too often broken. And the personnel involved in the processes seem to be incentivized to defer decisions rather than exercise their FAR-given authority and discretion to resolve issues. We look forward to a future USD(AT&L) memo exploring those fundamental leadership failures. Until then, this DPAP memo will have to suffice.