

DCAA Continues Tradition of Inflating Taxpayer Savings

Written by Nick Sanders
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We often wish DCAA leaders and taxpayer “advocates” testifying before Congress would stop inflating the amounts of “taxpayer savings” and the “return on the taxpayer dollar” they report. To say the values are inflated is an exercise in understatement.

Agency costs are understated by unknown—but very large—amounts. This is because many contractors are forced to provide office space for the auditors that are assigned to “resident” offices, branch offices and other “FAO” locations that are actually located on-site at the contractors’ facilities. In addition to office space, contractors must also provide desks, phones, copy machines, file cabinets, office supplies, and other items of tangible value. One larger defense contractor we know provides its DCAA auditors with roughly *\$1 million* worth of office space alone—and that’s just for a subsidiary operation. Another contractor was directed to provide special access to its cafeteria to accommodate DCAA auditor schedules.

And it’s not just DCAA, of course. Other Government agencies—including DCMA—require the same treatment. Contractors often have to forego facility reductions (with concomitant taxpayer savings) because they need to house their Government oversight officials.

Contractors who object to acting as the Government’s unofficial landlord and office supply provider are told to pass it back to the Government in their indirect cost rates—with the implicit threat that a failure to go along with the Government’s “request” will lead to additional audit findings. And so every contractor we know of goes along with the request, passing the additional costs back to their Government customers and, by extension, the U.S. taxpayers.

We don’t know the value of this largesse but we bet the DOD could reduce its weapon system spend if its oversight officials made use of GSA facilities instead of contractor facilities, allowing the contractors to pass along the reduced facility costs to its customers.

We also wish somebody would point out that much of DCAA’s claimed “taxpayer savings” is illusory. DCAA claims savings associated with every audit finding, with every questioned dollar—regardless of whether those questioned costs are sustained by a Contracting Officer or by the Courts. More to the point, DCAA claims savings associated with every questioned dollar on every contractor proposal submitted for consideration. We all know that’s a flawed methodology.

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The fact of the matter is that, generally speaking, in a competitive procurement only one contractor receives a contract. The other contractors receive nothing. So the only “savings” that counts to the taxpayers is the one associated with the contract award. “Savings” associated with proposals that did not result in a contract award simply count for nothing.

There are no savings where the taxpayer doesn't spend any money. It's too bad DCAA has chosen to inflate the “taxpayer savings” it generates through such a flawed methodology. And it's too bad nobody has pointed this flawed methodology out to Congress, or that no Congress person has ever challenged DCAA leadership for promulgating such a charade and testifying about sham savings.

Recent DCAA audit guidance ([MRD 11-OTS-024\(R\)](#)), issued June 2, 2011, continues this tradition of inflating reported taxpayer savings. The new audit guidance discusses how auditors are to calculate “cost avoidance” (also known as “achievable savings”) when performing Operations Audits.

Operations Audits, for those who may not be familiar with that term, these are DCAA audits that focus on management's decision-making and the efficiency of contractor operations. (See DCAA Contract Audit Manual at 14-500.) According to DCAA—

... the total audit concept places major emphasis on the degree of prudence exercised by management in establishing policies and making management decisions, methods of controlling costs, and the extent of reliance that can be placed on the accounting information and other financial data. ...

The audit plan for major contractor operations is primarily designed to seek out and identify those areas where the contractor's practices are wasteful, careless, inefficient and result or may result in unreasonable costs and unsatisfactory conditions in performing Government contracts; and to report such matters to those responsible for taking action to correct or improve the condition.

According to the DCAA audit guidance (link above), when reporting cost savings from

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Operations Audits the historical practice was to use one year's worth of costs. In other words, when the DCAA auditors found inefficiencies or unreasonable costs that the contractor was supposed to correct, the value of those costs was based on what the contractor had incurred (or would incur) over a one year period. But the audit guidance announced that, "The DCAA Director has approved a major policy change that will allow estimation of cost savings over an extended period of time that more logically reflects the impact of audit findings and conclusions up to a maximum period of six years."

Let's repeat that. Instead of using one year's worth of costs when reporting savings available to the contractor, DCAA will now be reporting up to *six years'* worth of costs.

Is this a big deal? Well, it might be.

Readers may recall [our discussion](#) of Shay Assad's new job at the Defense Department. Mr. Assad will be focusing on what programs "should cost" as opposed to merely accepting what contractors report they will cost. Part of that responsibility is addressing contractor overhead and other indirect costs, which Mr. Assad called "fair game" in his efforts to reduce Defense spending.

So when DCAA reports "achievable savings" in contractor operations, we think Mr. Assad will tend to use that data in his efforts to reduce weapon system prices. And now, because of this new audit guidance, his cost reduction goal will be six times higher than it would have otherwise been.