

GAO Says DCMA Has Been Mismanaged, Is Overly Reliant on DCAA

Written by Nick Sanders
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We have called them the “DOD Oversight Wars” and there have been episodic outbreaks of bureaucratic and political attacks for almost four years. GAO attacks DCAA; DCAA attacks DCMA; the DOD IG attacks both DCAA and DCMA; etc. You get the picture. Add-in the proxy attack dog, The Commission on Wartime Contracting, and various House and Senate hearings—with associated politician-generated soundbites, of course—and an observer might easily get the idea that the Federal government was distracted by defense-related internecine warfare. The DOD Oversight Wars are not only a symptom of the petty squabbling and lack of policy leadership to be found within today’s defense acquisition and oversight satrapies, they are also a primary driver of increased contractor overhead costs and program execution inefficiencies.

And so here we are again, with another kneecapper fired by GAO at the Department of Defense’s acquisition management team within the Defense Contract Management Agency (DCMA). We’re talking about the November 4, 2011 report ([GAO-12-83](#)), in which the Government Accountability Office told Congress, “A shift to a substantially decentralized, customer-oriented approach in the mid-2000s, intended to mitigate the impact of this workforce imbalance, resulted in unintended consequences such as inefficiencies in how work was done at the CMOs [Contract Management Offices].” Which is kind of a nice way of saying that DCMA was mismanaged, isn’t it?

And remember—the mid-2000s were a time when this nation was boots-on-the-ground in Afghanistan and Iraq, as well as pursuing vigorously what was called at the time the “global war on terror”. In other words, when the warfighters (and, indeed, the nation) needed effective and efficient management of the defense industrial base, DCMA was busy managing itself into the “unintended consequences” of “inefficiencies in how work was done”. Why nobody was fired or perhaps prosecuted for sabotage in the time of war, remains a mystery.

If you think we are overreacting just a tad, check out [this definition](#) of “sabotage”—

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Sabotage is a deliberate action aimed at weakening another entity through subversion, obstruction, disruption, or destruction. In a workplace setting, *sabotage is the conscious withdrawal of efficiency* generally directed at causing some change in workplace conditions.

(Emphasis added.)

Anyway, the GAO report, entitled, “DEFENSE CONTRACT MANAGEMENT AGENCY: Amid Ongoing Efforts to Rebuild Capacity, Several Factors Present Challenges in Meeting Its Missions,” engaged in less hyperbole, but was just about as damning in its criticism of DCMA management. GAO reported that DCMA staffing declined during the 2000s, from a high of nearly 20,000 (1993) to a low of 9,300 (2008). You read that correctly. For the first seven years of the global war on terror, DCMA continued to shed staff, even while its contract administration duties and unliquidated obligations under management continued to increase.

While the agency has focused on adding staff since 2008, GAO also reported that 52 percent of the DCMA workforce is currently eligible for either full or early retirement. That’s called the “human capital crisis” and the DOD has been warned about the phenomenon for more than a decade. Not that they ever did anything to mitigate the easily foreseeable problem, mind you

In addition, DCMA has mismanaged away “key skill sets,” according to GAO. The report says—

In addition to its precipitous drop in workforce numbers, DCMA had experienced an atrophying of some key skill sets. At the CMO level, one way DCMA is looking to build expertise of its new employees is by changing the workforce structure. Specifically, CMO staff are organized in one of three functional areas: contracting, engineering, or quality assurance. Previously, CMOs were organized in multifunctional teams, with employees from different disciplines (e.g., an ACO, a quality assurance representative, an engineer, etc.) on one team and responsible for overseeing a certain number of contracts.

The GAO report identified specific examples of how DCMA mismanagement had led to a degradation in functional efficiency. For example—

... by the late 1990s DCMA was routinely combining the duties of its contract cost/price analyst positions with the duties of its contracting specialists; and at that time, the agency had lost the majority of its contract cost/price analysts. *Loss of this skill set, according to DCMA, meant*

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that many of its pricing-related contract administration responsibilities, such as negotiating forward pricing rate agreements and establishing final indirect cost rates and billing rates, were no longer performed to the same level of discipline and consistency as in prior years.

As a result, DCMA reported that DOD's acquisitions were subjected to unacceptable levels of cost risks. In one recent example, a DCMA official told us about a case where an ACO, lacking support from contract cost/price analysts had, for simplicity, incorrectly blended a contractor's overhead rates rather than deriving separate rates for different areas (e.g., general and administrative, and manufacturing).

(Emphasis added.)

Well, while DCMA points to the loss of its contract cost/price analysis skill set as one of the causes of "unacceptable levels of cost risks," the rest of the defense industrial base points to it as one of the causes of contract management ineptitude. What we're saying is that you can look at this from (at least) two points of view. One point of view says DCMA mismanagement created a lack of necessary skill sets (including knowledge and experience) which led to "cost risks" in the pricing of DOD contracts. The other point of view says DCMA mismanagement created a lack of necessary skill sets that made effective management and administration of those contracts nearly impossible. While GAO worried about the pre-award negotiation and pricing, we're worried about the post-award contract execution phase of things.

And, you know, while one can wail and moan about how contracts were priced in an inconsistent manner that lacked discipline, the sad truth of the matter is that it's the post-award stuff that leads to ridiculous levels of cost growth and quality escapes that keep the warfighters from getting what they need, when they need it, at a reasonable price. Which is supposed to be DMCA's raison d'être—or so we're told from [its website](#).

The GAO informed readers that, realizing its management approach of the 2000s was sub-optimal, DCMA was in the process of reorganizing in a more centralized approach. As we quoted in the beginning of this article, GAO reported that DCMA's "customer-oriented, decentralized approach" led to "unintended consequences"—such as stovepiped silos and "confusion" amongst the CMO workforce. GAO reported—

... DCMA rescinded its compliance and procedures manual for the agency's required contract management functions—known as the 'DCMA One Book.' ... The intent of the change was to allow more flexibility for the CMOs to modify existing processes and explore new ones to better

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support their own customers' expected outcomes and objectives. However, officials from some CMOs we visited said the loss of the 'DCMA One Book' resulted in loss of consistent agency guidance and procedures, with one official characterizing this situation as a 'free for all.'

Ironically, this focus on providing CMOs the flexibility to meet their customers' needs as well as the absence of specific guidance and procedures resulted, according to DCMA officials, in a level of confusion among their program office customers. ... Relatedly, the decentralized nature of DCMA guidance led each product division to develop and execute its own policies and provided CMOs the leeway to develop additional policies and procedures to respond to their own customers' needs. This led to inconsistent oversight and surveillance activities among CMOs. Another unintended consequence was inefficiencies in how CMOs operated. For example, CMOs in close proximity but under different product divisions sometimes did not share resources or expertise and thus did not leverage their workforces to help meet workload surge requirements.

In addition—and as promised by this article's title—GAO reported that DCMA has become too reliant on use of DCAA audits. In particular, GAO noted that DCAA's lack of timely audits of contractor business systems had a significant impact on the ability of DCMA Administrative Contracting Officers (ACOs) to assess contractor risk. GAO reported—

A key external risk to DCMA's ability to effectively carry out its responsibility to determine the adequacy of defense contractor business systems comes from delays in obtaining audits from DCAA. We also found that DCMA contracting officers maintained their determination of many contractor business systems as adequate despite the fact that the systems had not been audited by DCAA in a number of years—in many cases well beyond the time frames outlined in DCAA guidance. Another potential risk for DCMA is a recent DOD policy change that increased the dollar threshold at which DCAA will conduct certain audits; as a result, DCMA's own pricing workload will increase. In addition ... the agency faces a potential increased workload in oversight and surveillance of key suppliers as defense subcontracting grows. ...

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We examined the status of [] three business systems for the 17 defense contractors responsible for programs included in this review. ... We found a substantial number of systems that had not been audited within the DCAA time frames; 12 of the contractors had at least one system without a current and timely audit. For example, as of May 31, 2011, 10 contractors had not had an overall accounting system audit within the last 4 years, and 9 had not had an estimating system audit within the last 3 years. In one case, a contractor which has increased its government business more than sevenfold since 2000 has not had an overall accounting system audit since 1998, despite the ACO requesting that DCAA perform such an audit. Further, one estimating system audit and two MMAS audits have never been conducted because, according to DCAA and DCMA officials, DCAA has not had the resources available to perform them. ...

That's not all. GAO reported the same thing we've been noting for several years: DCMA contracting officers are not pleased with DCAA's level of performance. GAO reported—

Some ACOs expressed concern that they did not have more up-to-date information with which to determine the status of the business systems... Many expressed frustration at the lack of timely DCAA audit support and identified it as a significant impediment to their ability to assess the status of contractor business systems, particularly accounting and estimating systems. Further, most noted that their DCAA counterparts were unable to provide clear and firm time frames for when the next audits would take place. In some cases, ACOs reported that expected audits planned by DCAA for a given fiscal year were not completed, so were moved back to the next year or canceled. When business systems are not audited in a timely manner, the government is at increased risk of paying for unallowable and unreasonable costs, as a contractor's cost structure or accounting procedures may change over time.

Some may remember our comments to the DAR Council on the proposed rules regarding contractor business systems. We opined that DCAA lacked the resources to fulfill its end of the bargain. We are pleased, in a bitter-sweet way, that GAO agreed with us. GAO reported—

However, because we found consistent delays in the audit time frames for the business systems that require support from DCAA, higher-level attention is needed to mitigate the risk to the government of outdated business system audits. *DCAA, because of workforce challenges of its own, is not at present able to fulfill its business system audit responsibilities and is not likely to be in a position to do so in the near term given its other priorities.*

Thus, the department needs to consider alternative methods to accomplish these critical audits

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in a timelier manner.

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To sum this up, GAO has reported, for all who have eyes to read it, that DCMA has been mismanaged for the past decade, that the mismanagement has put the agency in an untenable position, and that DCMA's position is further undercut by reliance on a contract audit agency (DCAA) that is not able to fulfill its regulatory oversight function.

Other than that, we're sure things are fine at the Department of Defense.