

GFY 2011 Was a Great Year for DCAA, According to DCAA

Written by Nick Sanders
Monday, 30 April 2012 17:32

Two documents were brought to our attention by one of our ever-attentive minions. Both of these documents appeared on the DCAA website very recently, with no public announcement or fanfare. The thing of it is: there really should have been some fanfare—because the audit agency deserves some serious applause for its efforts at spinning its problems into self-congratulatory praise.

The first document is entitled [2011 Year in Review](#). (Readers need to keep in mind that the Government Fiscal Year runs from October 1 through September 30 so, for DCAA, its Fiscal Year 2011 ended September 30, 2011. That's the period being discussed.) It's fairly innocuous but still worthy of somebody pointing out the spin.

And that somebody is us!

We grant that this document is likely produced for DCAA's workforce and, as such, is designed to accentuate the positive and improve morale. But even granting that worthy objective, in a couple of statements the spinning is more obvious than usual—to the point of being misleading.

Everything you need to know about the spin, you can find on the cover of the document, with the following summary of DCAA activity in GFY 2011—

In 2011, DCAA examined over \$125B in defense contractor costs and issued over 7,000 audit reports. These reports recommended \$11.9B in cost reductions. Overall, DCAA's efforts resulted in \$3.5B in net savings to the Government. Based on these net savings, the return on taxpayers' investment in DCAA was approximately \$5.80 for each dollar invested. This \$5.80 return represents actual savings that DoD can reinvest in other ways to help the warfighter.

What DCAA *didn't* say was that issuance of 7,390 audit reports in FY 2011 represented a *decrease* of 37 percent from the number of audit reports issued in FY 2010. And DCAA didn't say that the FY 2010 volume represented a *decrease* of 45 percent from the number of audit reports issued in FY 2009.

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Issuance of 7,390 reports during GFY 2011 means that *less than two audit reports were issued by each of DCAA's 4,225 auditors* over the course of a year.

We don't want to seem overly harsh. But *really?* That's pathetic.

But there's more spin to be discussed.

As we've [reported before](#), DCAA has a history of inflating its reported cost savings to the taxpayer, apparently so as to seem like a good investment when Congress discusses budgetary appropriations. So we view the figure of \$11.9 Billion in "recommended cost reductions" with a great deal of skepticism. For instance, when DCAA reported that \$9.6 of the \$11.9 Billion was related to audits of "forward pricing," then we expect that most of that reported amount related to proposals that were *never awarded*—
saving taxpayers
nothing

Most of the document is a litany of anecdotes and case studies, much like one would find in a public company's annual report. There's absolutely nothing wrong with publishing this kind of stuff if it helps auditor morale. Before we move on to the other document (which is perhaps the more interesting of the two) we want to note (and quote) Director Fitzgerald's plans for the agency in FY 2012—

Attaining a balance between quality and schedule: *As we continue to address the quality of DCAA audits, we cannot forget that timeliness is an important part of a quality audit. Attaining this balance will include continuing to revamp our audit process to build in quality early on and to increase communications with acquisition and industry stakeholders throughout the entire process. Additionally, DCAA will use the new Agreed-To-Date performance measure to track the Agency's progress in meeting its audit commitments and attaining the balance between quality and schedule.*

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Harnessing the Agency's Strategic Plan to focus on audit quality and workforce issues: DCAA has established 16 strategic plan ad hoc groups to focus on improving audit quality and address workforce issues. During 2012, the Agency will institute many of the recommendations of the ad hoc groups. This will include changes to how new employees are brought on-board, mentored and trained, development of new audit guidance related to business system reviews at major contractors, and development of a revised Agency-wide telework policy.

Assessing the Agency's formal training program at the Defense Contract Audit Institute: During 2012 DCAA will arrange for an independent review and evaluation of its training operations. This will be first big step in developing a state of the art training concept and methodology for the entire audit workforce.

Enhancing audit quality in preparation for a Government peer review: As the Agency prepares for an external peer review, 2012 will be a critical year for DCAA. Everyone in the Agency will need to display a sense of dedication and urgency in continuing to improve our audit quality to ensure we successfully pass our peer review

We think those are excellent goals and we are in favor of anything that increases audit quality and timeliness of audit reports. So we hope that DCAA moves toward attaining those goals in the next five months (which is all that is left of GFY 2012).

The second document is the first annual [DCAA Report to Congress](#), dated March 30, 2012. We [told](#) our readers that it was coming.

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As we told our readers, the 2012 National Defense Authorization Act (NDAA) required (for the first time) that DCAA submit its own report to Congress, rather than simply including its audit metrics within the DOD Inspector General's Semi-Annual Report. The Report was addressed to "Congressional Defense Committees," so our readers should keep in mind that, unlike the previous report, this Report was written for external readers; indeed, it was written for the elected Representatives (and their staffs) who make policy and determine budgets.

Nonetheless, we think the spin is reminiscent of the internal employee morale-booster we discussed above. For example, the letter of transmittal to Congress stated—

FY 2011 was a very successful year for DCAA. We examined over \$128 billion in defense contractor costs and issued over 7,000 audit reports. These reports recommended \$11.9 billion in cost reductions. Overall, our efforts assisted contracting officials achieve \$3.5 billion in documented savings to the Government. Based on these savings, the return on taxpayers' investment in DCAA was approximately \$5.80 for each dollar invested. This \$5.80 return represents actual savings that DoD can reinvest in other ways to help the warfighter.

Our success in FY 2011 was a result of our commitment to the workforce and audit process. The main focus of our Agency-wide efforts was twofold: improving the quality of our audits, and supporting and enhancing our workforce. ...

Yeah, no. While whether audit quality improved measurably might be a matter of some debate, there should be no debate whatsoever that GFY 2011 was *not* a successful year for DCAA. (See our comments above regarding DCAA's definition of "successful".)

But we're just getting started

On Page 3 of the Report the statement was made that, "A key indicator of DCAA's effectiveness is the increasing ratio of DCAA questioned cost to dollars examined as depicted in Figure 1." Figure 1 showed that the percentage of questioned costs to dollars examined reached an amazing figure of 9.25 percent in 2011—literally more than four times the 2001 percentage of 2.2 percent. DCAA auditors are questioning nearly one dollar out of every ten dollars proposed and/or incurred by contractors. And that is supposed to be a good thing.

The problem with that logic is that DCAA auditors can question costs for any number of legitimate and illegitimate reasons, including costs that are deemed to be unsupported because documentation is allegedly lacking. Every DCAA auditor knows that the only way to avoid being

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“gigged by CIGIE” is to not have a clean audit report. Questioned costs are a good thing in the new audit environment because it means the auditor did a thorough job; whereas a clean audit report subjects the auditor to criticism for failing to do a rigorous audit “in accordance with GAGAS.” Consequently (as our readers know all too well), DCAA’s current audit approach to assuring quality calls for auditors to dig and dig and keep requesting documentation until something is found to be lacking—at which point the costs are questioned and the auditors breathe a sigh of relief. (So much for auditor independence....)

Thus we are completely unsurprised that DCAA leadership believes that the percentage of questioned costs to dollars examined is “a key indicator of DCAA’s effectiveness.” Given the audit environment they have created, how could they not think so?

We think a more important indicator would be percentage of questioned costs that are actually sustained by a Contracting Officer. Or we would think so, if we thought a DCMA Contracting Officer had the courage to stand up and (as the FAR requires of them) use independent business judgment to make a Final Decision regarding DCAA’s audit findings. Unfortunately for everybody, that is not the current business environment in which defense contractors operate. Contracting Officers live in fear and they know that if they don’t sustain DCAA’s findings—regardless of the merit of those findings—then they will be visiting at least one Review Board.

On Page 5 of the Report, DCAA tells Congress that it issued 349 incurred cost reports during GFY 2011. There is no comparison of that figure with prior years’ output. But we all know that the backlog of uncompleted (and, indeed, unstarted) incurred cost audits is growing and growing. Indeed, DCAA reported that—

At the end of FY 2011, DCAA had about 15,000 adequate annual contractor incurred cost submissions on hand with a total value of about \$254 billion. Additionally, DCAA was either awaiting receipt of, or had not made an adequacy determination for approximately 9,000 incurred cost submissions with a total value of about \$320 billion.

Pardon us if we assert, based on the foregoing, that 349 completed incurred cost audits in one year means that we will all be long dead before DCAA gets around to auditing FY 2012 or 2013 costs. To make things worse, DCAA reported that, under its current audit procedures, it now takes about *three times as long* to perform an incurred cost audit as it used to take. On Page 7 of the Report, DCAA tells readers that it now takes an average of *965 days* to perform an incurred cost audit.

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Yes, you read that correctly. DCAA is now taking an average of three years to audit one year of a contractor's incurred costs. We very much hope that the alarm bells are ringing somewhere inside the Beltway.

We also noted that DCAA reported it takes 120 days (4 months) to complete and issue an "forward pricing" audit report—i.e., an audit of a contractor's cost proposal or Forward Pricing Rates to be used for cost proposals. Four months. That's (also) pathetic.

Predictably, DCAA blamed its lack of productivity on "resource constraints"—ignoring poorly thought-out audit procedures, multiple levels of management review, and mismanagement of the existing audit resources as contributing factors. Also predictably, DCAA blamed the contractors for its failings—as it has done since 2009. DCAA told Congress—

Inadequate contractor proposals are a significant barrier that DCAA faces in performing a timely and quality Forward Pricing audit. ... FAR Part 15, Contracting by Negotiation, provides general instructions and guidelines for contractors to submit proposals. Prior to beginning a forward pricing audit, DCAA reviews the contractor's proposal for compliance with FAR Part 15.408 Table 15-2. If the proposal is not prepared in accordance with Table 15-2, it is returned to the contracting officer so that the contractor can correct the deficiencies. However, the contracting officer often requests DCAA to audit inadequate proposals due to acquisition timeline requirements—further contributing to extended audit cycle times and less efficient use of audit resources.

Yeah, that's *bullshit*.

As our readers know (because we've told you), the requirements of FAR Table 15-2 only apply when the contractor is submitting certified cost or pricing data and needs to comply with the Truth-in-Negotiation Act. For all the many other proposals being submitted, those requirements are simply Not Applicable. But current DCAA audit guidance tells its auditors to use the Table 15-2 requirements as the basis for determining adequacy of all proposals. DCAA auditors are making up deficiencies and are returning perfectly cromulent cost proposals because they don't understand the difference between a TINA-compliant proposal and one that doesn't need to comply with TINA. The audit guidance (and, apparently, the auditor training) is leading auditors down a path of poor performance. And somehow that's the contractors' fault.

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But that's not all. DCAA also told Congress that it needs enhanced statutory authority for access to contractors' records in order to do a better job. (What's better than "successful"? But we digress...)

On Page 10 and 11 of the Report, DCAA stated—

DCAA is required to perform audits in accordance with GAGAS. To perform GAGAS-compliant audits, DCAA must obtain sufficient evidence to provide a reasonable basis for the conclusions expressed in its audit reports. To address limitations of DCAA's access to contractor records under existing law, DCAA believes it needs statutory authority to access: other than cost and pricing data, management reviews and internal audits related to Government contracts, contract costs, and the contractor's internal control documentation related to compliance with applicable Government regulations.

Currently, under Public Law 99-145, 10 U.S.C. §2313(b), the Director of DCAA has the authority to issue subpoenas when a contractor refuses to grant DCAA access to the records covered by the statute. However, in 1988 the United States Court of Appeals, Fourth Circuit denied enforcement of a DCAA subpoena related to internal audit material from Newport News Shipbuilding. The Court ruled that DCAA's subpoena power provided by 10 U.S.C. §2313(b) is limited to negotiations, pricing, or performance of a particular contract. This ruling denied DCAA access to records of management reviews and internal audits which the Court determined to be beyond the statutory provisions of DCAA's subpoena power. Consequently, government contractors frequently use the Newport News court case as a basis for denying DCAA access to specific records.

Amendments to 10 U.S.C. §2313 would give DCAA access to the types of records needed to accomplish the Agency's mission. The Newport News decisions bring into question the DCAA statutory authority to require contractors to provide other than certified cost and pricing data supporting the reliability of the related internal control systems. It is essential for DCAA to have access to contractor reviews, inquiries, investigations, and internal audits in order to evaluate contractor business systems. ...

Greater access to contractor records means that DCAA would have a more accurate picture of cost and price data. DCAA needs access to contractors' internal documents to determine if contractors are taking appropriate corrective action when irregularities or misappropriations are identified, that the Government is not overcharged, and that appropriate contractor disclosure has been provided to Government officials in compliance with the FAR. Therefore, it is also essential for DCAA to have access to contractor reviews, inquiries, investigations, and internal audits in order to evaluate contractor internal control systems and determine compliance with

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any applicable contract clauses or Federal or agency acquisition regulations. Greater access by DCAA would lessen the burden on the contractor to identify and isolate specific records that have already been analyzed internally. This increased access would allow DCAA to take a comprehensive look at contractors' internal audits that have already been completed, thus reducing duplication of effort and increasing the cost effectiveness of audit analysis.

Well, that's just more *bullshit*, isn't it?

Those damn activist judges, interfering with DCAA's access to records. Something needs to be done about that! But of course, let's all ignore the fact that DCAA doesn't actually use the subpoena power it already has. And let's ignore the fact that most DCAA auditors don't think contractor internal audit reports are even relevant to their audits. That's not our opinion: it was the official finding of a GAO audit report (link in the previous sentence). GAO reported—

Auditors from three DCAA audit teams stated that they did not believe that access to contractor internal audit information is critical to their own audit work and that the internal audit reports do not have enough detail to be helpful. They also stated that they are restricted by auditing standards in relying on the work of others.

The DCAA Report used the foregoing as support for a request to Congress for more resources. And you know what? The agency probably does need more auditors. But before Congress gives DCAA more budget, we hope DCAA is first required to (a) better manage its current workforce and (b) better train its current workforce.

Oh, and (c) quit misleading Congress. Man up and admit your shortcomings. Admit that GFY 2011 was not a successful year under any reasonable definition of "successful." When you have admitted you've hit bottom, anything else will be an improvement.