

A Frontal Attack on DCAA from a Long-time Supporter

Written by Nick Sanders
Monday, 28 May 2012 00:00

The only thing that ought to surprise you about the latest attack on DCAA is its source. We [predicted](#) that the DOD's premier audit agency should expect "scrutiny from many diverse stakeholders" and that it was "moving into the cross-hairs of a number of power parties, who may well seek to significantly restructure or even eliminate the audit agency altogether." So the latest attack on DCAA—which has been described as "scathing" by more than one media source—should surprise nobody. But what is surprising is the source; that, and how effectively the attack was made.

Before we get into the latest broadside salvo on the sinking ship that is the Defense Contract Audit Agency, let's pause a moment and defuse a few of the inevitable detractors who will seek to discount and/or denigrate our analysis because we don't work for the U.S. Government. Here's the deal on that issue: We do not hate DCAA. We do not hate DCMA. We very much respect the people who work in the Defense management and oversight functions. While we have trouble containing our disdain and contempt for policy and guidance that seems to make no sense, that angst comes from a comparison between what is and what ought to be—and not from a desire to pull accounting/billing shenanigans on the U.S. Government.

In other words—and this is just like almost every single person who works in the government contracting, accounting and/or compliance field—*we are rooting for DCMA and DCAA to pull their collective heads out of their collective backsides and get back to the business of effective contract oversight*. We very much want an effective contract oversight regime because it leads to a working government acquisition environment. A working government acquisition environment benefits everybody, from contractor to warfighter, from auditor to taxpayer, and from accounts payable to consultant.

Make no mistake: the current government acquisition environment is broken almost beyond repair. While the finger of blame can point in many directions and at many individuals, we cannot escape our firm conviction that the biggest slice of the blame pie should be served a la mode to the Defense Contract Audit Agency, who (as an agency) seems to be actively and with malice aforethought trying to sabotage the defense acquisition machinery.

There. We said it. Deal with it.

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But we aren't the only ones who have that thought in mind. For a recent example, let's look at Richard Loeb's article in the latest issue of *Government Contract Cost, Pricing & Accounting Report*, entitled "[DCAA—Is Anybody Home?](#)" (Hey, you know what? We're on the Advisory Board of that publication and saw an advance copy of the article in question.) Mr. Loeb, an attorney employed by the Federal government and former Executive Secretary to the CAS Board, knows a thing or two about DCAA and audits. We haven't always agreed with him—nor do we agree 100 percent with every point he makes in his article—but he does seem to have command of facts and figures.

Those facts and figures show that DCAA is failing.

Now, that's not news to us. Nor is it news to you. In fact, we devoted a recent [blog article](#) to that topic, asserting that DCAA's GFY 2011 performance was "pathetic" (in contrast to the agency's own assessment, which is that it had a "successful" year). Mr. Loeb looked at the same data we looked at, and constructed a scathing, brutally honest, assessment of his own. He wrote "

In many practical ways, DCAA has, in essence, stopped performing audits.

" And that was just for starters.

According to Mr. Loeb, using DCAA's own published statistics, it is clear that *DCAA's productivity has declined by 400 percent in the past three years*

. He wrote—

In fiscal year 2008, DCAA issued 30,352 audit reports and covered about \$458 billion of proposed and claimed contractor costs. Going forward three years to the end of FY 2011, DCAA has completed just 7,390 audits covering \$129 billion. This is a reduction of 22,962 reports or over 400 percent, and a reduction of about \$330 billion or over 350 percent in dollars audited. It is almost incomprehensible how DCAA could just stop performing so many audits, especially as contracting actions and dollars awarded have not decreased in any material way.

He asserted that the root causes of the fall-off in DCAA productivity are misplaced priorities and flawed audit procedures. He asked—

Did DCAA need such a drastic overhaul that it no longer has time to complete thousands of required audits, or did the agency respond to the GAO reviews by going overboard and spending an inordinate amount of time on working paper documentation to ensure that GAO and the Department of Defense inspector general would not find fault with any working papers,

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all the while letting billions of contract costs go unaudited? Where has DCAA placed its priorities for ensuring proper use of taxpayer dollars? Apparently, it is on the administrative side of performing audits.

Mr. Loeb looked at recent audit guidance addressing reviews of contractors' billing systems, and he didn't care for what he saw. Not at all. He wrote—

Given the extensive directions to auditors for documenting nearly every discussion and every piece of paper obtained from the contractor, it is clear that DCAA's direction is one of form over substance and it is placing much greater emphasis on the completion of audit working papers than on the completion of an actual audit. In fact, the requirement for the auditor to 'document' audit effort is stated over 50 times in the audit program. ... It is becoming clearer why DCAA has had a 400-percent reduction in completed assignments: an inordinate amount of time is being spent on administrative aspects of the audit rather than on conducting the audit.

Mr. Loeb concluded his article with the following thoughts—

The question for policy makers and those who profess to support taxpayer interests is whether it would be a better use of resources having DCAA contract auditors spending a majority of their audit time examining and analyzing contractor accounting records, rather than documenting discussions with supervisors and managers on the risk assessment, audit steps and independent review results. ... Sadly, given the direction of DCAA, it does not appear that it is training its auditors in the art of auditing and sifting through records to find overcharges. Rather, DCAA is developing a generation of auditors that understand the art of working paper documentation and having team discussions. ...

With the billions of taxpayer dollars that are awarded annually in Government contracts, there is a need for a DCAA that conducts both qualitatively and quantitatively outstanding audits. The current DCAA approach satisfies neither consideration. It is time for DCAA to balance these factors appropriately, rather than merely making sure that all 'the appropriate boxes are checked.'

It is time for DCAA to concentrate on its core mission, and conduct contract audits.

Let's be clear: We agree with Mr. Loeb in almost every respect. In many ways, he's echoing what we've been writing on this site for several years. But let's look a little more closely at those DCAA metrics from the DOD IG Semi-Annual Reports, as provided in his article.

Mr. Loeb did not have the benefit of looking at DCAA's first Annual Report (to Congress) when he wrote his article. All he had was the general metrics (which were devastating enough on their own). But we saw the DCAA Annual Report, and we told you about it. (See the "blog

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article” link above.) Those more detailed metrics are damning.

As we told you in our previous blog article, at the end of its GFY 2011, it had a incurred cost backlog of 24,000 (15,000 that had been determined to be adequate but not yet audited, and 9,000 awaiting determinations of adequacy) that was worth \$574 Billion. DCAA reported completing 349 incurred cost audits in its GFY 2011 (reporting that each completed audit took an average of three years to perform). So, given that performance rate, how long will it take DCAA to audit its current backlog?

Answer: 68.8 years.

Yes, that is correct. Even if no other contractor incurred cost proposal is ever received by DCAA, it currently has nearly 70 years’ worth of backlog to audit. Readers, we just can’t make this stuff up.

And if you are the CO or COTR or government PM of a major defense weapons program, then you are not going to know your final costs for another 70 years. Please make sure you keep your appropriated funds from expiring during that time, won’t you?

And if you are a contractor waiting for the DCAA audit that never starts—and never ends after it starts—make sure to retain all documentation for that 70 year period, so that DCAA auditors will have something to audit. After all, you don’t want your costs to be questioned because they were unsupported! So make sure to retain all that documentation in your leased warehouses, or at Iron Mountain. Sure, it will cost you hundreds of thousands of dollars a year. But don’t worry about that—you can just pass those additional costs back to the Government through your indirect rates!

What’s that you say? The Government has some Initiative that focuses on pressuring contractors to reduce their overhead rates. Really? Well, this is one area that can’t be reduced. Sorry about that.

But of course, come June 30 another 5,000 or so new incurred cost proposals will be received

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by the agency, just like every other year. Thus, that's another 14 years' worth of auditing that needs to be performed. So next year, we expect DCAA to report that it has more than 80 years' worth of incurred cost audit backlog. And so on, forever.

But that's not all. Let's look at performance related to post-award "defective pricing" audits. In GFY 2011, DCAA issued just 31 audit reports related to defective pricing, compared to 356 in GFY 2008—for a productivity drop of *1,148 percent*. So if you think one important mission of DCAA is to prevent defective pricing, well. That's not really going to happen anytime soon.

Clearly, something has got to change at DCAA.

We have some clues as to what DCAA may be planning to do, and we hope we are wrong. (Stay tuned.) But in the meantime, Mr. Loeb, former Executive Secretary of the CAS Board and current employee of the Federal government, has just fired a devastatingly accurate shot directly at DCAA. His article is getting play in several media sources.

We hope somebody in Congress is listening and thinking about ginormous hole that DCAA has dug for itself. We hope somebody is thinking that this situation has gotten out of hand

Because we want DCAA to be an effective audit agency. We really do.