

Musings About DCAA, Part 1 of 2

Written by Nick Sanders
Monday, 21 April 2014 00:00

If a reader were to look back over the more than 700 articles on this blog, that reader might notice several common themes. Recurring points scattered throughout multiple articles include topics such as:

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The critical importance of effective supply chain management and the pressing need to secure the program supply chain.

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The forward march of technology, including discussions about evidence which shows the private sector is (once again) driving technological innovation and that the government is (once again) being left behind.

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Today's version of "acquisition reform" and discussions about the swinging pendulum that contrasts the defense acquisition environment of the mid-1990's with the current acquisition environment-including the rise of adversarial relationships between government customer and government contractor, and the rise in litigation in areas that used to be handled through administrative procedures.

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The importance of investing in internal controls, as evidenced by a large number of articles recounting fraud allegations within the community of government contractors as well as within the civil service and (unfortunately) within the ranks of the military service as well.

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Exploration of the arcane areas of Federal Cost Accounting Standards (CAS), including discussions of legal cases that impact government contract cost accounting (from a layperson's view).

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Analyses of certain less understood or inherently opaque aspects of government contracting.

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Discussions of leadership, workforce management, and innovative approaches to "human resources".

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Topics related to program management, including predictions about government budgetary constraints and their impacts on poorly performing programs.

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Discussions about contract administration/management, including discussions of the still recent DFARS "business system" administration regime.

Perhaps that reader might conclude that the interests (dare we say expertise?) of Apogee Consulting, Inc., are fairly eclectic, even though our overarching focus has been consistently aimed at the subject of government contracting. We like to believe that "big picture" view is one of our strengths, even though others might think we should pick a topic and stick with it.

But that's not really our style.

We have never had an explicit agenda or list of topics to discuss; instead, we have written about what interested us and what caught our eyes in the news. We have written about many things and we have tried to draw inferences from what we saw and heard-all with the intent of documenting the crazy world of government contracting as we have experienced it. Sometimes our articles resonate with those of you who come to visit and other times things we care about passionately seem to hang in the lower rungs of the hit count. Which is fine, because popularity has never been the goal, even though this site has [become more popular](#) than we could ever have hoped for.

We write about many things within the broad rubric of government contracting and government contract cost accounting, but perhaps the most conspicuous theme has been our many

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discussions of the foibles of the Defense Contract Audit Agency (DCAA).

As this blog came into being, DCAA was in the process of being tortured by everybody from GAO to the DOD Inspector to Congress over flagrant audit quality failures. It was the most serious crises faced by the audit agency since its founding in 1965. This blog has documented the subsequent de-evolution of DCAA from its former glory as the Federal government's premier audit agency into a troubled (and arguably mismanaged) agency with systemic problems including a dramatic decrease in productivity, continued audit quality failures, and bureaucratic maneuvering that has tried to paint a thin veneer of top-down forced GAGAS compliance in an vain attempt to cover the rusted hulk of antiquated audit procedures, the systemic inability to exercise professional judgment during audit performance, and an anxious (perhaps neurotic) preoccupation with working papers instead of transaction testing.

Point of fact: The last external peer review of DCAA audit quality was performed in 2006 by the DOD Inspector General, and the DOD IG's 2007 opinion of "adequate" (with recommended corrective actions) was withdrawn in August, 2009. Since August 26, 2009, DCAA has not had an opinion on its quality control system covering its audits and attestation engagements as required by GAGAS 3.59b. GAGAS 3.50b and 3.55 require audit organizations performing audits or attestation engagements in compliance with GAGAS to have an external peer review at least once every 3 years. Based on GAGAS criteria, DCAA should have obtained a peer review on its work performed in FY 2009. *It has not done so.*

DCAA told the Audit Committee of the Council of Inspectors General on Integrity and Efficiency (CIGIE) that a peer review would be performed in GFY 2013 and would cover reports issued in GFY 2012. GFY 2013 ended on September 30, 2013 with no external peer report being issued. We do not know the status of the external peer review (except that it's already more than six months late), but we do know that *until that peer review report is issued, DCAA cannot claim to be issuing GAGAS-compliant attestation reports*, since it is not compliant with the GAGAS requirements noted above.

Here is [a link](#) to DCAA's own admission of the situation in which it finds itself. Naturally, there is no mention of the agency-wide GAGAS failure. (See our comment on "thin veneer" above.)

DCAA is so anxious about the next round of audit quality assessments that it seems to have [started issuing memos](#) instead of audit reports. We assume the strategic driver behind this sea change is the belief

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is that the external reviewers will not include the memos in the universe of audit activity subject to testing for GAGAS compliance, if and when that external quality review is ever performed.

But this article is not about the lack of DCAA audit quality; not really. Instead, we want to point out a trend that others have noticed but which has not really been highlighted before. We want to talk about DCAA's deliberate and intentional efforts to push audit work off the backs of its staff and onto the backs of others.

The trend first started in September, 2010, when the DOD changed its approach to requesting "field pricing assistance" (reviews of contractors' proposed costs) from DCAA. Note this change did not spring from the mind of the Secretary of Defense or the USD (AT&L); no, the change was requested by DCAA and "approved" by the then Director of Defense Procurement and Acquisition Policy (DPAP)-even though DPAP was not in DCAA's chain of command. (DPAP sets policy for DCMA Contracting Officers; but we've noted a recent trend wherein DPAP has been setting audit policy for DCAA as well. What gives? But we digress.) The change in approach meant that the expected dollar value of the contract award and the anticipated contract type determined whether or not DCAA would perform an audit of bidders' proposals. With few exceptions, DCAA would only audits proposals for firm, fixed-price contracts if the award value were expected to be more than \$10 million, and it would only audit proposals for cost-reimbursement contracts if the award value were expected to be more than \$100 million. For other (smaller, assumed-to-be-less-risky) proposals, the DCMA contracting officer and staff would be on their own.

As [we reported](#) roughly two years later, that new approach concerned the DOD Office of the Inspector General, which reported that the change in audit approach did not reduce DCAA audit hours as much as initially predicted, did not help DCAA reprioritize the workload as much as initially promised and, as a result, the new approach actually led to a *reduction* in taxpayer savings.

The DOD IG reported the impetus for change in the field pricing assistance policy was driven by DCAA's lack of audit resources. It was a deliberate attempt to "reduce the number of audits DCAA was performing" so that the audit agency could focus on its "most important work," which included "large dollar value contractor proposals, incurred cost audits relating to the backlog of DoD contracts awaiting final close-out, and defective pricing audits." Well, our readers know how well *that* cunning plan has worked out for DCAA.

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It was the DOD IG that first brought to the public's attention the DOD strategy of shifting audit workload from DCAA to DCMA. The IG report questioned the decision "to direct Department and taxpayer resources to DCMA to perform a job DCMA was not prepared to perform when DCAA had the existing infrastructure in place to get the job the done." And we've been watching that trend accelerate ever since.

NEXT: The trend continues and accelerates and leads to an unexpected sharp turn, right in the hearts of smaller DOD contractors.