

Goodbye GAGAS?

Written by Nick Sanders
Friday, 18 July 2014 00:35



We used to write letters to the Director, DCAA every year and publish them on this website. We wrote two before we were advised to cease the practice. Why? Well, because (1) the Director, DCAA, was not going to read our words, and (2) the Director, DCAA, was not going to direct DCAA based on the words of some blogger who never even worked for DCAA. We were told it was an exercise in futility.

Plus, you know, it struck certain people as being more than slightly arrogant. Who were we at Apogee Consulting, Inc., to tell a member of the Senior Executive Service, whose appointment was vetted (if not pushed) by powerful members of Congress and approved at the highest levels of the Defense Department?

So we stopped writing annual open letters to the Director, DCAA after the second one.

Truly, we were trying to be helpful. Our belief was that the Director, DCAA, wasn't getting the full and correct story from the auditors in the trenches; the ones actually doing the work and interacting with contractors. Our belief was that if the Director, DCAA, actually knew the effect audit guidance was having on the defense acquisition system, that audit guidance would be revised.

Okay, we were naïve. Sure, we get that. But please believe our intentions were pure and free of the normal levels of sarcasm and snark one encounters in our blog.

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The two open letters are still on the blog. You can find 'em, if you are so inclined.

We were reminded of our naïve and perhaps patronizing advice to the Director, DCAA, when we noticed how many DCAA activities are being designed to avoid compliance with GAGAS. We think that's kind of a good thing ... almost like the Director, DCAA, finally got around to reading our advice and nodded, and then made it happen.

What advice , you may ask?

In our [first letter](#) , written in December, 2009, we suggested the following to the Director, DCAA:

... consider whether all DCAA audits need to be subject to GAGAS. Reasonable people will disagree with GAO's stringent definition of 'independence' under GAGAS, but you can avoid the issue altogether if you make certain audits subject to GAGAS while others are not. There is precedent for this change: the AICPA has Consulting Standards that differ from Auditing Standards. Since DCAA performs both financial advisory services and audits, it would seem to make sense to apportion each type of audit into GAGAS-compliant and non-GAGAS-compliant groupings. And, by the way, DCMA really wants DCAA to participate in the process as an advisor; it wants your audits to offer value-added advice and to support the acquisition process. Contractors want to hear from auditors as well; they want to know where they need to improve and what should be done to fix system deficiencies. Your auditors can't do this if GAO will allege they've compromised 'independence' whenever this happens-so change the rules of the game to eliminate the issue altogether.

In our second letter, we expressed disappointment that the audit agency hadn't moved forward on our suggestion. But in the roughly 30 months since that second letter was published, we've come to see that, indeed, DCAA has decided to split out GAGAS-compliant audits from procedures that do not have to comply with GAGAS. Sometimes DCAA explicitly notes in its [audit program](#) that the procedures do not have to comply with GAGAS, and other times we have to infer it from the fact that the output of the procedures is not an audit report but is, instead, a Memorandum.

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Look, we are *not* going to claim any special credit for this sea-change in approach to performing audits. But nonetheless, we smile a secret little smile when we see it happening. It's a good step forward and we are happy to see the change in approach.

The fact that it will reduce the audit agency's exposure to allegations of GAGAS non-compliances is simply a byproduct of the strategic management decision, we are quite sure.