

Why DCAA is Having Problems: A Conversation with a DCAA Auditor

Written by Nick Sanders

Monday, 01 September 2014 00:00



Sometimes we wish we were making this stuff up.

But no, reality is strange enough without having to resort to fiction writing.

We recently had a conversation with a DCAA auditor. It was a professional conversation, not at all any sort of “off-the-record” discussion that you can sometimes have if you are lucky enough to develop a rapport with your auditor. Nope. This one was official and formal, and the tone was serious. This one was for real.

And we think it illustrates all-too-precisely *what in the hell* has happened to the audit agency that was once held up as the gold standard for all governmental audit agencies.

We think it illustrates, quite accurately, why audits take so much longer than they used to take, and why so many more hours are necessary to push an audit report out the door. We assert that it illustrates, quite accurately, why GAO has expressed concerns with the quality of the DCAA audit reports. We suggest that it evidences the current preoccupation with working paper documentation in lieu of actual audit procedures, and why that preoccupation is a fatal flaw for the agency. We feel it is an indicator that auditor training is seriously lacking and, as a result, professional judgment is seriously flawed.

It was a short conversation, really. But it confirmed so much.

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Perhaps we are biased and lack objectivity. Perhaps we are reading too much into a simple conversation between a junior level DCAA auditor and an entity being audited.

So we'll ask you to judge for yourself. What do *you* make of the following conversation?

Email from Auditor: Hello. I have been requested by your ACO to perform a 19100 review of your client's recent Disclosure Statement revisions for compliance.

Apogee Consulting: Hi there! How can we help you?

Auditor: Before we have our walk-through, I need you to fill out this list of individual Cost Accounting Standards. For each Standard, please tell me the date the Standard was effective, as well as the date the Standard was applicable, for your entity.

Apogee: [WTF?] We're not sure what you mean. Our client is a large business that has been fully CAS-covered for many years. At this point, all Standards are applicable. Perhaps we are misunderstanding your request? Let's have a telephone call to clarify what you need. Perhaps if you tell us why you need it, we can give you what you really need, since it can't be what you asked for in writing.

(Now switching from email to phone conversation.)

Auditor: I need what I asked for in writing.

Apogee: As we told you, our client is a large business. It has been doing business with DOD for many years. It is fully CAS-covered. All Standards are both effective and applicable for the entity.

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Auditor: I understand what you are saying. But even so, I need what I requested.

Apogee: Isn't that effort just a waste of time? Look, how about we stipulate in writing that the entity is fully CAS-covered? How about we put in an email that all Standards are applicable to the entity?

Auditor: No good. That's not what the audit program calls for.

Apogee: You mean the [new audit program](#) that just went into effect? The one that focuses on Disclosure Statement compliance instead of adequacy?

Auditor: Yes, that's the one. I'm required by the new audit program to obtain a list showing the effective date and applicability date for each individual Cost Accounting Standard.

Apogee: You can't be serious, right?

Auditor: Don't believe me? Check for yourself. See Section C-1, Step 1, found on page 5 of 7, of the new audit program.

Apogee: [Stunned silence.] Yeah. We see it. It says “ *Prepare a list detailing CAS applicability dates for each standard used to evaluate compliance of the contractor's disclosed cost accounting practices (CAM 8-301.c.). Note: Use the list to determine if the Cost Accounting Standard is applicable, based on the date of applicability, before citing a CAS noncompliance .*” So basically, you need to make sure a Standard is applicable to our client before you assert a CAS noncompliance?

Auditor: Yes.

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Apogee: Well, that makes sense, we guess. But as we previously mentioned, all Standards are applicable to this client. We'll be happy to put that in writing, if you like. A management "representation" or "assertion," if you will.

Auditor: Nope. I need a list for my working papers. That's what the audit program calls for, and that's what I need to prepare. And you will prepare it for me.

Apogee: But there's no information in that list! All we are going to do is just read the CAS and tell you what the regulations say the applicability date and effectivity dates are. It's meaningless.

Auditor: I need what I need. Did you read the CAM reference?

Apogee: You mean the part that says –

c. To facilitate the implementation process, each promulgated standard contains in subparagraph .63 an effective date and an applicability date. The CASB defers the applicability date beyond the effective date in order to provide contractors adequate time to prepare for compliance and make any required accounting changes. Under the regulation, a contractor becomes subject to a new standard only after receiving the first CAS-covered contract following the effective date.

(1) The distinction between the effective and applicability dates is important. The effective date designates when the pricing of future CAS-covered contracts must reflect the new standard. It also identifies those CAS-covered contracts eligible for an equitable adjustment, since only contracts in existence on the effective date can be equitably adjusted to reflect the prospective application of a new or revised standard.

(2) The applicability date marks the beginning of the period when the contractor's accounting and reporting systems must comply with a new or revised standard. Proposals for contracts to be awarded after the effective date of a standard should be evaluated carefully for compliance with the new or revised standard. The proposal need only reflect compliance with the standard

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from the applicability date forward. Therefore, it is important that the auditor determine the applicability date of the particular Standard (including any revisions) under audit. Any change resulting from early implementation by the contractor is to be administered as a unilateral change. It will result in an equitable adjustment under FAR 52.230-2(a)(4)(iii) for the period prior to the applicability if the CFAO determines that the unilateral change is a desirable change.

Auditor: Exactly. So please fill out the list I sent you, identifying the applicability date and effective date for each of the nineteen individual Cost Accounting Standards.

Apogee: (Oh, dear Lord.) Um, sure. Will do. Should take about an hour. First, we'll need to find our CAS book.

Auditor: Thank you for your timely cooperation.

And that, dear readers, is exactly *what in the hell* is wrong with DCAA these days.

EDITOR'S NOTE: For those readers who may not be familiar with the Cost Accounting Standards, there hasn't been a new Standard promulgated since 1980. Since then, a couple of Standards have been revised (notably CAS 412 and 413), but by 2014 any given contractor is either (a) exempt from CAS altogether; (b) subject only to CAS 401, 402, 405, and 406; or (c) subject to all 19 Standards.

ANOTHER EDITOR'S NOTE: Wouldn't it make way more sense to tell an auditor: "Hey, before you assert a noncompliance with CAS, make sure the contractor is actually, y'know, subject to that particular Standard? Have the contractor confirm in writing that the Standard is applicable to it before asserting a noncompliance." Yo
u betcha

. It sure would make way more sense to do it that way. But if you did it that way, you wouldn't get such a pretty working paper for the audit file.

A THIRD EDITOR'S NOTE: When the auditor requests that the contractor complete the list, identifying both CAS applicability and effective date for the entity being audited, what in the hell

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does that even mean from an audit perspective? What if we lied and said something like “CAS 403 is not yet applicable to this entity, so you cannot assert a noncompliance with CAS 403?” How would the auditor know if we were lying or telling the truth? How would the auditor test the accuracy of the dates on the list? When the audit program calls for the auditor to determine the applicability of the Standards to the entity being audited, and then the auditors asks the entity to prepare the actual working paper demonstrating the applicability without testing the validity of the assertions, how does that lead to a quality audit?

A FOURTH AND FINAL EDITOR’S NOTE: Mike Steen, Technical Director at Redstone Consulting, who is quite knowledgeable about DCAA, thinks we are perhaps overreacting a tad. (As is our wont.) In response to our whining post about the new 19100 audit program on LinkedIn, he wrote, “I interpret this as nothing more than DCAA not wanting to express an opinion on actual practices as compliant with CAS and/or with the CAS DS. Stat[ed] differently, DCAA is once again narrowly defining its audit objective, otherwise this would be one more perpetual audit involving hundreds of transactions to provide sufficient evidential matter supporting a conclusion that actual practices were or were not compliant.” He may have a point.