

What is the DCAA Audit Guidance Situation?

Written by Nick Sanders
Thursday, 10 September 2015 00:00



The situation is confused. It's puzzling. And DCAA is not discussing it. So we are left with guesswork and speculation and a frowny face.

We are writing about the current situation with DCAA audit guidance, in case you were wondering.

First, there was the case of the disappearing Memo for Regional Directors (MRD). MRD 15-PPD-002, published by DCAA February 12, 2015, purported to list all the contractors who were late in submitting their proposals to establish final billing rates (aka, incurred cost submissions). We (and other posters) had a lot of fun with the list on LinkedIn because it was so wrong. The list included contractors that had received written extensions, contractors that had already submitted their proposals, and (allegedly) some contractors that didn't have to submit a proposal at all. It was a lot of fun, and nobody was especially surprised when DCAA yanked that MRD off its website a couple of weeks later.

But it was never replaced.

And since then ... nothing.

DCAA has not published a single MRD on its website since that ill-fated MRD 15-PPD-002. *No*

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thing.
Bupkus. Nada. Zilch.

Why? We don't know, nor do we know anybody who knows.

Has DCAA simply stopped issuing MRDs? Our sources say no. DCAA is still issuing audit guidance to its auditors. However, that audit guidance may be for internal use only (i.e., not releasable to the general public). Or perhaps the guidance *is* releasable ... and DCAA is choosing not to release it, for whatever reasons. We don't know what the situation is.

The only thing we know is that DCAA has not published any new audit guidance on its website since mid-February, 2015 – almost seven months ago. To our knowledge, DCAA has never gone that long without issuing new audit guidance.

Weird, huh?

Another thing that's weird is that DCAA issued a [new](#) Adequacy Checklist for Incurred Cost Submissions (Version 3.0) ... and never said a word about it. All you people working on your final billing rate proposal had better review it and figure out what the changes are ... because DCAA isn't going to tell you. And why should they? It's an internal tool to be used by DCAA auditors. The fact that you and I will use it to make sure our submission is going to be found to be adequate is beside the point. And so now you know and you should use it to help you with your next ICS.

The final weird thing is also hard to understand. Apparently, Chapter 7 of the Contract Audit Manual went missing for a week or two.

The DCAA Contract Audit Manual (CAM), for those who may not know, is the audit “Bible” for DCAA auditors. It contains the agency's audit policy guidance and DCAA auditors must follow that guidance. (The CAM doesn't contain the actual audit programs, which are the detailed audit steps. Those are found elsewhere. But it contains a lot of helpful stuff—helpful to both auditor and auditee.) The [CAM](#) is “must reading” for anybody who is serious about performing

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quality contract audits—or who is serious about supporting those audits.

Chapter 7 of the CAM is entitled “Selected Areas of Costs” and covers certain “selected” items of cost and “accounting methods requiring special attention” by DCAA auditors (and contractors). It is a very important part of the CAM. The single chapter is about 220 pages long, and covers diverse topics ranging from leases to insurance, and from selling costs to taxes. For those diverse topics, it establishes which accounting techniques are acceptable and which are verboten. Thus, to think it would disappear is kind of devastating.

But disappear it did, at least for a while.

Darrell Oyer noticed it first, and alerted his newsletter mailing list. He used the disappearance of Chapter 7 as an example of how DCAA had lost its way by focusing on the wrong audit objective. He wrote—

The latest DCAM change removes Chapter 7, which addressed selected areas of cost. ... It is difficult to understand why this is a good idea. This guidance seems essential to assuring audit consistency and for the benefit of newly hired auditors. ... Removal of valid audit guidance is only logical if your charter has been modified to ‘protect the taxpayer interest’ as opposed to providing profession[al] audit services (based on the regulations). It is difficult to meet the standard ‘protect the taxpayer interest’ if you have to follow rules.

As Assistant Director of DCAA I once had an exit conference with GAO [who was] critical because DCAA selected contracts judgmentally to audit for defective pricing. ... GAO insisted that DCAA should be performing a random sample ... [because] with a random sample, you can estimate and conclude that there is \$xxx billion of defective pricing and you cannot project from a DCAA judgmental sample. That illustrates the difference between what formerly was a DCAA audit and what was then a GAO audit ... GAO audited for headlines for the taxpayer; DCAA audited to get taxpayer money back. ...

DCAA has gone from professional accountants and auditors who work for the government to government employees who have accounting and auditing experience. ... Any auditor should apply the rules of the profession to protect the taxpayer interest, but not toss out the rules and use ‘protect the taxpayer interest’ as the only (and blind objective).

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Mr. Oyer was alarmed at the thought of a gradual disappearance of the auditor “rulebook” one chapter at a time, thus freeing the auditors to question any cost that caught his or her eye. (We note that Appendix B of the CAM was cancelled in February 2015, and Appendix E was cancelled in May 2015 ... so there was more than one data point from which to plot the line of disappearance.)

But then Chapter 7 was returned to the on-line CAM a couple of weeks later. Mr. Oyer noted that as well in a follow-up email alert. However, the return of Chapter 7 did not assuage his concerns about the direction of the DCAA. After he noted the return of Chapter 7, he wrote: *All other comments in the prior newsletter remain operative.*