

Our recent articles on the dearth of published DCAA audit guidance (called Memoranda for Regional Directors, or MRDs) must have struck a chord, because we started to get emails from people who had access to those MRDs and who were willing to share them. Truthfully, there wasn't much of interest except for the MRD that addressed how to deal with offsetting debit/credit transactions in a sample universe. (Indeed, our anonymous sources state that MRDs continue to be published in GFY 2016 but those MRDs continue to be of little interest to the general public.) But that fact just goes to support the notion that there was no reason for the audit agency to hide the guidance. There were no "secrets" and thus nothing to hide. Refusing to publish the "releasable" audit guidance feeds the suspicious minds of folk (like us) and does nothing to reduce the too-adversarial nature of the relationship between DCAA auditors and those being audited.

Regardless, we thank those who care enough to provide us insight into the "behind the walls" inner workings of DCAA. To that end, we thought it would be appropriate to lay-out our ground rules for receiving and using such insight.

1.

If a document says "For Official Use Only" or FOUO we don't want it. Don't send it to us.

2.

If a document contains proprietary information regarding a contractor, we don't want it.

3.

If a document pertains to on-going litigation and is protected by Attorney-Client Privilege, we don't want it.

4.

If you are breaking an agency rule by sending it to us, we don't want it.

5.

If you are a Contracting Officer and you want us to give you advice on a dispute between DCAA and a contractor—and you are looking to issue a Determination on the matter—please

don't ask. We have nearly 900 blog articles and, chances are, we've already expressed our opinion somewhere in there. Maybe you can find what you're looking for via the site's search feature. If not, you're on your own. Be bold.

Other than that, if you have things you would like to share, go ahead and email us. It's always nice to augment our meager resources with information and insight from others.

And speaking of resources, it seems that DCAA has some concerns in that area. The concerns center on certain provisions of H.R. 114-270 – the 2016 National Defense Authorization Act (NDAA). While the bill has not yet been sent to President Obama—and there's a decent chance he may veto it—the House and Senate have agreed on the [Conference Report](#) and it's not likely to change much (if at all) from this point on. Of special concern to DCAA leadership is the language found in Title VIII of the bill (“Acquisition Policy, Acquisition Management, and Related Matters”). Proposed Section 893 states—

SEC. 893. IMPROVED AUDITING OF CONTRACTS.

(a) Prohibition on Performance of Non-defense Audits by DCAA.--

(1) In general.--***Effective on the date of the enactment of this Act, the Defense Contract Audit Agency may not provide audit support for non-Defense Agencies unless the Secretary of Defense certifies that the backlog for incurred cost audits is less than 18 months of incurred cost inventory.***

(2) Adjustment in funding for reimbursements from non-defense agencies.--The amount appropriated and otherwise available to the Defense Contract Audit Agency for a fiscal year beginning after September 30, 2016, shall be reduced by an amount equivalent to any reimbursements received by the Agency from non-Defense Agencies for audit support provided. ...

(d) Incurred Cost Inventory Defined.--In this section, the term "incurred cost inventory" means the level of contractor incurred cost proposals in inventory from prior fiscal years that are currently being audited by the Defense Contract Audit Agency.

(Emphasis added.)

According to one source, Ms. Anita Bales (Director, DCAA) issued an email that said—

Last week, the 2016 National Defense Authorization Act (NDAA) conference report was released with provisions that affect DCAA. Specifically, the current House- and Senate-approved conference report prohibits DCAA from performing any non-DoD audits if our incurred cost inventory is not less than 18 months. We have been pushing hard to remove or modify this language, and we have been adamant in our arguments that **reimbursable work has no impact on our resources for performing DoD work because of how each is funded.**

Importantly, the Authorization Act is not yet final because it still has to be signed by the President. We are continuing to work this issue from several angles, and I want to assure you that we are working diligently with Congress staff members to explain that the proposed language in the bill will not help our efforts in reducing the backlog and will, in fact, hinder our ability to achieve their desired outcome.

(Emphasis added. Note we could not independently verify that this was a legitimate quote from Ms. Bale's email.)

We do not presume to assume that it is a real email quote, but what if it were? The logic underlying the bolded statement would be consistent with what we've experienced of DCAA management. The logic conflates "resources" with "budget dollars" instead of linking "resources" with "audit staff." In other words, it should be obvious that if you have a fixed number of "resources"—*i.e.*, audit staff to perform audits—then you have to prioritize how those resources are used, regardless of funding source. Whether funding is provided by DOE or NASA or USAID or DHHS or from the DoD itself, the funding all comes from the taxpayers and they should expect (and get) the most efficient and effective use of their funds. Playing shell games with appropriation accounts achieves neither objective.

Our anonymous source states—

... the argument of the DCAA is that the reimbursable work is self-supporting. If that work is taken away by NDAA 2016, then auditors will have to be RIF'd, because they're in the wrong locations and there is not funding to TDY them to other locations, as was done in decades past. That may be true I don't know. I don't have access to the numbers.

Why is DCAA managing itself this way? Let's be clear that we are almost wholly without insight into how DCAA prepares and manages its budgets – but it seems fairly obvious that Field Audit Offices (FAOs) are being created and staffed (and presumably funded) at the local Branch level. Why? Why not budget and manage at the Regional Level and let the appropriate Regional leadership determine where best to put his or her scarce audit resources, given the overall funding provided? Why determine local staffing based on local budgets, augmented by reimbursable work? Doesn't that impact prioritization of the agency's workload?

It sure seems that way to us.

It seems likely that Congress will send the FY 2016 NDAA to the President, who may or may not sign it. If a veto is made, it may or may not be overridden by Congress. Thus, there is a chain of “maybes” that need to happen in order to create a situation where the individual DCAA auditor would need to worry about the Section 893 language. But DCAA could mitigate any impact by rethinking its budgeting and management processes so as to limit reliance on non-DoD funding when developing program plans and priorities for the audit staff.

And those other non-DoD agencies that have come to rely on DCAA for audit support? They could mitigate the risk associated with elimination of DCAA audit support by making plans to get their own audits done. Indeed, certain agencies (including DOE and NASA) have [begun talking](#) about just that issue, and have begun to [make plans](#) to carry on without DCAA audit support.

DCAA Resources

Written by Nick Sanders

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In our experience, good DCAA auditors typically do not have a tough time finding new jobs at DCMA, EPA, DOE, or other agencies. DCAA trains its auditors well (or used to), and thus other Federal agencies are happy to fill their open slots with ex-DCAA auditors. Hell, private industry tends to fill its audit liaisons and compliance staff with ex-DCAA auditors—and we know there are several openings right now, for those interested in leaving Government service. So it's not all bad and we don't think the average DCAA auditor needs to be overly concerned—especially if that auditor is willing to relocate.

But we do think DCAA needs to rethink its current management approach and figure out how to manage its agency workload priorities without being overly reliant on funding from non-DoD sources. Funding is not resources; people are resources. That's why former Comptroller David Walker started calling employees "human capital." And when you have limited "human capital," then the amount of funding you have is really irrelevant.