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The Department of Defense Office of Inspector General, in a report that should not have surprised anybody who's been following this issue, recently issued an **audit report** critical of the Cost Monitors at the Defense Contract Management Agency. The audit report essentially said that the DCMA Cost Monitors were less effective than the auditors of the Defense Contract Audit Agency at performing audits of contractor proposals.

Shocking, we know. *Shocking.*

The DoD OIG, continuing the time-honored tradition of criticizing anybody and everybody in the Federal procurement process that isn't actually a member of the DoD OIG staff, told Pentagon leadership that DCMA "cannot demonstrate that it performs adequate cost analyses on proposals below the [DCAA] audit thresholds" and that DoD cannot "show that DCMA achieves an annual rate of return comparable to the return that [DCAA] achieved before the change in audit thresholds." In other words, by shifting the proposal audit burden from DCAA auditors to DCMA Cost Monitors, the government is likely to pay more for its negotiated contracts. How much more? Perhaps *lots more*.

We don't know how much money the DoD is leaving on the table because, according to the DoD OIG, "DCMA cannot demonstrate that it … reports reliable performance statistics on its cost analysis efforts."

The genesis of this predictable finger-pointing exercise was a decision made by Shay Assad in September, 2010, to address DCAA's inability to issue audit reports by establishing dollar thresholds below which DCAA would not perform audits of contractor proposals for new contract awards (called by DCAA "forward pricing proposals"). We told readers about that philosophical change in audit approach in **this article** . We were enthusiastic supporters of the notion that the less DCAA involvement in negotiations between Defense Department and contractor, the better it would be for everybody. We wrote: "this seems to be a good first step in DCMA's evolution towards a contract administration agency that can evaluate and negotiate cost proposals without leaning on DCAA like a crutch. We applaud it—and encourage the Pentagon to keep going!"

A couple of years later (November, 2012, to be more exact) we published **another article** reviewing a DoD OIG audit report that expressed concerns with the shift of the workload from

DCAA to DCMA. We summarized the IG's concerns thusly—

If you are the DOD IG, you might notice that, despite **reports at the time** that stated 'defense officials believe the change will focus resources on high-risk areas and increase savings to the department,' the fact of the matter is 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. If you are the DOD Inspector General, you might well conclude that the entire initiative was poorly thought out and was, in essence, a mistake.

Indeed, that's *exactly* what the DOD IG concluded, in a new audit report published this month.

Critically, the November 2012 OIG audit report found that the decision to transfer audit workload from DCAA to DCMA lacked a "business case". In other words, the decision was made for bureaucratic reasons and lacked a solid, defensible business rationale. Which is ironic, because the people making that decision were ostensibly solid businesspeople. When Ash Carter was Undersecretary of Defense (AT&L) he famously hung a sign outside his Pentagon office that said, "In God we trust; all others bring data." The funny thing is that, in this one decision at least, the data was never provided.

The foundational premise of the November 2012 DoD OIG audit report was that DCAA achieved $1,885 in taxpayer savings for every audit hour spent on such "low-dollar proposal audits." According to the IG, as a result of shifting the proposal audit workload to DCMA, *the U.S. taxpayers were going to lose out in $249.1 million in potential savings each year*. The IG wrote—

Lastly, we find that DP and DPAP did not demonstrate why they chose 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. A formal business case analysis could have identified that it was advantageous and more economical to direct any increase in DoD resources to the organization that already had the existing infrastructure to adequately perform proposal evaluations and track the questioned costs.

We thought the IG's audit report was damning. We were appalled that such decisions were made based on questionable data, on inflated values of audit hours that could be saved and redirected toward incurred cost audits, and without proper vetting and approval. We admit it: we were young and naïve.

And now, three years later and three years older and three years wiser (or more cynical, if you prefer), we are not at all surprised that the DoD OIG is back once again, criticizing the initial decision and the results of that decision. Nor should you be surprised.

In its 2015 audit report, the IG found that things are looking better for DCAA five years after the policy change. DCAA's backlog of incurred cost audits has been reduced (though of course not as much as had been promised) and questioned costs have increased as a percentage of examined costs when compared to 2010 (though of course the more recent DCAA annual report indicates that trend has reversed a bit). As predicted, DCAA was the winner. And DCMA was the loser—as the IG found that 34 percent of cost analysis files reviewed were non-compliant with DCMA Instruction 120 ("Pricing and Negotiation"). Granted, that was about half the non-compliance rate found in 2012—but the IG still found it to be unacceptably high.

There was more to the audit report, about DCMA's delayed implementation of its Pricing and Negotiation ("P&N") eTool and the fact that its Mission Review Team (MRT) does not evaluate the sufficiency of the cost analysis procedures performed by the Cost Monitors. But none of the other stuff matters as much as the fundamental point that the shift of audit workload from DCAA to DCMA has had troubling results, at least as reported by the DoD OIG.