



DCAA has had a problem with its backlog of unperformed audits for quite some time, dating back at least to 2009 when the audit agency made two fateful decisions: (1) DCAA was going to intentionally stop performing audits of contractors' proposals to establish final billing rates (colloquially called "incurred cost audits"), and (2) DCAA was going to comply with GAGAS—as the agency interpreted it—even if it killed auditor productivity to do so. As a result of those two decisions, the backlog of incurred cost audits grew and grew and grew ... to the point where we thought the audit agency would never catch up. Despite the growing backlog, DCAA insisted on continuing to use onerous audit procedures and in performing multiple levels of (redundant) reviews—to the point where agency metrics showed it took nearly three full years to audit one year's worth of claimed costs.

Despite that rather problematic metric—that it takes DCAA, on average, nearly three years to issue an audit report covering one year's worth of contractor costs—DCAA has proudly announced that it has reduced its audit backlog to only 170% of "normal" (where "normal" is defined as 18 months' worth of audit backlog). Since math doesn't lie, how did that happen?

As readers of this blog know, DCAA didn't change its audit approach nor did it change its peculiar interpretation of GAGAS, but it did manage to significantly reduce its backlog of incurred cost audits via three strategic decisions: (1) DCAA intentionally shifted much of its non-incurred cost audit workload to DCMA, (2) DCAA adopted a "do not audit" approach to many "low-risk" contractor proposals, and (3) DCAA decided that if a contractor didn't submit an "adequate" final billing rate proposal on time, *it would simply not perform an audit ... ever*. It would wash its hands of the whole mess. Instead, the agency would (1) recommend an arbitrary 16.2% decrement to the contractor's claimed direct and indirect costs, and (2) close the file and let DCMA handle it.

In essence, then, DCAA reduced its embarrassing backlog of incurred costs audits by figuring

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Written by Nick Sanders

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out how to not perform the audits.

While DCAA was implementing its innovative do-not-audit approach to its audit backlog, others—including both DoD leadership and Congress—were growing impatient with the seemingly intractable problem. As we [noted](#) in late 2012, DoD’s “Better Buying Power 2.0” initiative targeted DCAA’s audit backlog. The GFY 2012 National Defense Authorization Act (NDAA) required DCAA to issue an annual report to Congress that contained specified performance metrics. It was clear that DCAA’s audit backlog made people nervous.

And it wasn’t just Congress and DoD leadership who were nervous about DCAA’s audit backlog. The GAO [told](#) DCMA that it was overly reliant on DCAA audits, and needed to develop (or relearn) its “key skill sets” including cost/price analysis. NASA’s Inspector General told NASA leadership that “NASA contracting officers place an unhealthy reliance on DCAA audits.” The Department of Energy’s Inspector General told DOE that “DCAA has been unable to meet the non-M&O contract audit needs of the Department” and recommended that the Department “develop a comprehensive strategy to supplement DCAA’s [lack of] audit coverage until the backlog of unaudited contractor submissions is eliminated.”

So this has been a concern of DoD and DOE and NASA and Congress for about four years ... and DCAA’s promises of “catching up” by GFY 2015 did not inspire robust confidence. Indeed, as noted above, DCAA did not catch up (despite its innovative do-not-audit approach), and now here we are in GFY 2016 and the problem remains.

Let us be clear, then, that [Section 893](#) of the GFY 2016 NDAA should not be an extreme surprise to anybody who has been following this issue for the past four years. Nobody who was following DCAA’s progress (or lack thereof) in reducing its audit backlog should have been blindsided by the language in the public law. Indeed, Version 1 of the NDAA (the one that was vetoed) had that same verbiage in it, and we wrote about it

[right here](#)

. In a nutshell, Section 893 prohibits DCAA from performing audit work for non-DoD agencies until “DCAA certifies that the backlog for incurred costs is less than 18 months of incurred-cost inventory.”

The point being: if DCAA can’t work through its backlog of DoD-related audits, then it should not be spending precious audit resources performing audits for any non-DoD agencies. Seems logical to us.

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The problem is: DCAA has become accustomed to the funding provided by non-DoD agencies. Thus, it has positioned its staff to support non-DoD agency audits. When the non-DoD workload vanishes, then its staff is out of place and cannot easily return to performing DoD audits. This is a problem and some auditors are nervous about it.

As colleague Darrell Oyer explained in his recent newsletter—

DCAA has appropriated funds to audit for DoD. DCAA also has a staffing allocation (not \$, but people) greater than the amount of funds available via DoD. This must be made up by doing reimbursable work for non-DoD agencies. This initially started when NASA disbanded their audit organization in about the early 1970's. NASA transferred about 70 positions to DCAA but no funds. The funds were to be obtained by [performing] reimbursable work for NASA. Almost all non-DoD agencies have had Agreements with DCAA for such audits. In recent years, this work has dropped off because audit report users have found the DCAA audits to be much less useful due to having more 'protective fluff' than substance.

In an earlier newsletter, Darrell reported on a notice received from DCAA, stating that it was stopping work on an audit of a subcontractor to a “reimbursable” prime contractor (“reimbursable” in this case meaning that the audit was being performed on a reimbursable basis for a non-DoD agency). Essentially, DCAA simply walked away from in-process audit work.

What's puzzling about that report is that it seems to contradict what Ms. Anita Bales (allegedly) promised her staff in a pre-Thanksgiving email. In that email, she (allegedly) said of the Section 893 audit prohibition: “We are working with the managers and the audit teams that are affected by this to make sure we shut down that work in an orderly manner.” Darrell's report sure didn't sound “orderly” to us.

As we noted in our prior article on Section 893, it's not all bad news for DCAA auditors who are affected by the audit prohibition. There is a fair amount of work available for ex-DCAA auditors, especially for those who are willing to relocate. Those who leave the agency tend to have good experiences at their new places of employment. For example, one ex-DCAA auditor wrote us to say—

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I worked 28 years at DCAA. I left X years ago to come to DCMA. Best decision I ever made. DCAA was and is broken. At DCMA I have so much work it's insane. Do I make pretty work papers all day that management reviews and critiques? No. Is DCMA perfect? No. But at least we are looking at stuff and issuing reports. Something is actually being done!!!!!! Costs are being questioned and the government is saving money. I know it is. DCMA has problems. All their systems for filing cases and tracking cases, is awful. DCAA could teach them something there. However at the end of the day reports are issued and recommendations are made. ...

I have never been so busy in my XX year Federal career and honestly enjoy it after wasting so much time at DCAA. I never realized how truly broken DCAA was until I left. Is [DCMA] perfect? No but at least we are doing something. How is DCAA doing? ... DCAA does close to nothing. Low risk memos and paid voucher reviews. While I look at \$40 million proposal after \$50 million proposal. ... As a taxpayer I have no problems with what DCMA is doing. It still bothers me what goes on at DCAA

So for those at DCAA affected by the Section 893 audit prohibition, try to look on the bright side. You might find yourself doing meaningful work that generates taxpayer savings. That's not to say that DCAA doesn't generate taxpayer savings ... it's just that it takes the agency so long to do so.