

What if DCAA Didn't Do ANY Audits?

Written by Nick Sanders

Monday, 25 January 2016 00:00



Our [previous article](#) posited the notion that the Defense Contract Audit Agency would be better off if it stuck to performing audits, and quit providing “services that fall outside audit support” to its customers—especially those customers that are non-DoD agencies. We asserted that, if DCAA were to focus its staff of some 5,000 auditors on performing audits for DoD only, then it would be better positioned to reduce its embarrassing backlog of unperformed audits (especially including audits of contractors’ proposals to establish final billing rates) and thus get Congress and other critics (including us!) off its back. We opined that a relentless focus on performing audits—*and only audits*—would be beneficial to the audit agency, as well as to its customers, including DCMA.

Not everybody agreed with our assertion.

In particular, our long-time supporter “George Kaplan” wrote us a fairly long email explaining why we were wrong. George argued that it was DCAA’s focus on performing GAGAS-compliant audits, especially in areas that were not easily susceptible to being audited in accordance with GAGAS, that was the audit agency’s real problem. In George’s view, the audit agency ought to get out of the audit business—or at the very least quit trying to comply with GAGAS in so many of its assignments.

George wrote —

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I'd go in the opposite direction. I'd try to categorize more of the assignments as non-audit services, so as to get out from under the GAGAS umbrella. That would include forward pricing audits, which you addressed recently. To get to GAGAS compliance, a huge effort is required - the risk assessment, a lot of transaction testing, multiple layers of review. 'Auditor judgment' is a thing of the past. For incurred cost audits, I have a suspicion (not founded on any inside information) that the Agency will give equal weight to all of the audits in its inventory, which would make a Boeing or Northrop Grumman divisional audit equal in weight to smaller audits. The major contractor audits, as you know, typically take a year each, often involving more than one auditor. Counting the assignments equally would likely mean that the Agency can go back to auditing non-DoD ICPs, maybe as early as FY 2017. The number of months of inventory seems to be a state secret, although I've heard a figure of 22 months, which seems unbelievably close to 18 months; so close that 18 should be readily attainable. ... The audits that are under \$1M of auditable dollar value (or volume, I forget which it is) typically don't pay off. It takes more time to audit them than what the buying command or civilian agency gets back in terms of sustainable questioned costs.

We are sympathetic to George's point of view. Indeed, we've advocated much the same thing, in a [blog post](#) from early 2010. More than six years ago we wrote in an "open letter" to then-Director Pat Fitzgerald —

... consider whether all DCAA audits need to be subject to GAGAS. Reasonable people will disagree with GAO's stringent definition of "independence" under GAGAS, but you can avoid the issue altogether if you make certain audits subject to GAGAS while others are not. There is precedent for this change: the AICPA has Consulting Standards that differ from Auditing Standards. Since DCAA performs both financial advisory services and audits, it would seem to make sense to apportion each type of audit into GAGAS-compliant and non-GAGAS-compliant groupings. And, by the way, DCMA really wants DCAA to participate in the process as an advisor; it wants your audits to offer value-added advice and to support the acquisition process. Contractors want to hear from auditors as well; they want to know where they need to improve and what should be done to fix system deficiencies. Your auditors can't do this if GAO will allege they've compromised 'independence' whenever this happens—so change the rules of the game to eliminate the issue altogether.

Really, then, we are not very far apart in our positions.

The point is: DCAA needs to do something different. It needs to address its backlog of unperformed audits. In our view, the audit agency needs to address that backlog without using bureaucratic tricks to close-out audit assignments. DCAA should not be permitted to reduce its

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audit backlog without actually performing the work. Simply reducing the audit backlog without performing the audit work that is inherent in the backlog strikes us as doing a disservice to DCAA customers, and to the taxpayers.

If DCAA is permitted to continue to claim a backlog reduction via trickery, and if DCAA management then declares victory—defined as having an ICS audit backlog of only 18 months—then it will be a hollow victory indeed.