

DCAA and the Future of Reimbursable Audits

Written by Nick Sanders
Wednesday, 17 February 2016 00:00

January, as we've noted before, seemed to be devoted to the audit staffing issues of the Defense Contract Audit Agency. That was not intentional—which is to say we did not set out after Christmas to focus on DCAA to the exclusion of all other issues; yet that is where the news of the moment took us. And now here we are, back once again, with yet *another* article about DCAA and its audit staffing issues.

Sorry about that, folks.

After our last series of articles we received an email from a fairly reliable “inside” source, somebody who's proven over time to give us good stuff. That source alerted us to the lobbying efforts of DCAA leadership and their attempts to alter the FY 2016 NDAA language, convince Staffers that the language had created a problem, and to work to get the language “fixed” as soon as possible. (We assume you know about the problematic FY 2016 NDAA language from our articles on the topic. If not, you may want to review them before continuing with this article.)

Our source also alerted us to the lobbying efforts of DCAA leadership to persuade the civilian agencies to “stay the course” while Congress (and its Staffers) work to fix the problem. Our source wrote—

The civilian agencies are reportedly telling DCAA that ‘You guys are the gold standard and we want to stick with you; we'll remain patient until the new language goes into effect.’ Only a minority of work is expected to leave DCAA in favor of private CPA firms.

Now, our normal practice is not to write about that kind of stuff. First, we don't know if it's true or not, so we tend to err on the side of caution. Second, it's not really newsworthy. *Of course* DCAA leadership is trying to get the problematic language fixed.

Of course

DCAA leadership would like to persuade the civilian agencies to accept a pause (of at least a year's duration) in audit support while the language is getting fixed. All that is to be expected; and because it's to be expected we tend not to want to write about it.

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But then it was officially confirmed and certain details were added. And now we are writing about it.

We attended a public event at which the keynote speaker was a high-level DCAA SES person. That speaker—who was excellent by the way—addressed the issue and was quite up-front in confirming everything our source had told us. But it was the details we found to be of interest.

Here's what we learned:

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DCAA's interpretation of the NDAA prohibition is that it applies only to audit work that is 100% reimbursable. For example, if DCAA is auditing a contractor's proposal to establish final billing rates (which is commonly called an "incurred cost submission") and that proposal has a mixture of both DoD and non-DoD contracts, DCAA will continue to perform the audit. However, if the contractor's proposal has zero DoD contracts, then DCAA will not perform the audit. This interpretation minimizes the impact to DCAA's workload.

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The freeze (or pause, if you prefer) in performing audits has already had consequences. For example, the backlog of incurred cost submissions awaiting audit is now starting to creep back up. This is because DCAA still counts civilian agency ICS proposals in its backlog even though—according to the NDAA language—it cannot perform audits on those proposals. Nonetheless, this now gives DCAA yet *another* reason for having a backlog, a reason unconnected with management effectiveness. We predict that next year you will hear DCAA assert that it would have met its commitment to bring the backlog down to an 18 month supply, if it weren't for those meddling Congressional Staffers.

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Another impact of the audit freeze, according to the SES speaker, was that it has resulted in an agency-wide hiring freeze. The hiring freeze stems from DCAA management not knowing whether the auditors performing reimbursable work are actually available to be reassigned, or whether they will be back performing that work in less than a year. Until the resources are sorted out, DCAA isn't sure what its needs are and has chosen to freeze hiring.

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Meanwhile, according to the SES speaker, auditor attrition is still attriting and up to half the current DCAA leadership team is up for retirement within 3 to 5 years. Thus, there will be openings at all levels within DCAA and high potential auditors should expect promotion opportunities.

All in all, the SES speaker painted a bright, rosy picture of the future. There was an acknowledgement of past problems, but the focus was on all the in-process initiatives designed to move the audit agency forward into the 21st century. It was well done.

Yet while the SES speaker was pleading for patience, the acquisition environment continued to move forward. Proposals were submitted and evaluated, contracts were awarded, and public vouchers were submitted and paid. In the midst of the usual hustle-and-bustle of it all, many individuals still have their concerns about DCAA's role and ability to add value. For example, we received the following email from an anonymous source—but a source that's proven to be fairly accurate in the past.

Taking a Defense Acquisition University (DAU) class ... The instructor when talking about DCAA in helping support anyone said basically 'Forget DCAA they can't do anything'. The people in the class, that represented a pretty good cross section of agencies seemed to agree. What a great reputation DCAA has earned.

The question then becomes whether DCAA's customers and stakeholders will grant DCAA the time necessary to effectuate the in-process initiatives—or whether it is already too late. The SES speaker did a great job in communicating those initiatives and in selling a vision of a more effective audit agency—but can those initiatives repair the reputational damage already done? When civilian agencies talk about DCAA being the “gold standard”—are they talking about the DCAA of 10 years ago or the DCAA of today?

Obviously we don't know the answers to those questions. But you can bet that if we were running the audit agency, it would be those questions that would keep us up at night.