The big news right now is that DCAA has formally notified Congress, through the DoD Comptroller, that it has reduced its backlog of unaudited incurred cost submissions to a more acceptable 18 months' of inventory. Thus, DCAA may now resume providing full audit support for non-DOD agencies, such as NASA and the Department of Energy (DOE).

That's good news for DCAA and its auditors.

As readers may well know, DCAA was prohibited by statute for performing audit services for non-DoD agencies until it certified it had reduced its embarrassing backlog to more acceptable levels. As we **reported**, at the end of GFY 2011 DCAA had a backlog of 24,000 unaudited contractor proposals to establish final billing rates. 15,000 of those 24,000 had been determined to be adequate and 9,000 had not.

Similarly, at that time (GYF 2011) DCAA was reporting almost unbelievable drops in auditor productivity. In that year DCAA issued 7,390 audit reports – *in total*. It became clear that the drop in auditor productivity was systemic, as we discussed in **this article**. We wrote at the time—

In GFY 2008, DCAA had 4,200 employees and roughly 8,064,000 work hours available (assuming that each auditor had 1,920 audit hours available per year (which may be overstating the situation, but not materially.) That year, DCAA issued 30,352 reports. So DCAA spent an average of 265.7 hours per report and issued about 7.23 reports per employee.

In GFY 2011, DCAA had 4,777 employees, and thus roughly 9,171,840 work hours available. That year, DCAA issued 7,390 reports. So DCAA spent an average of 1,241.1 hours per report and issued about 1.5 reports per employee. Comparing GFYs 2008 and 2011, DCAA had 577 more staff, but spent nearly *1,000 more hours* on every completed audit report (975 more hours per report, to be exact). *In GFY 2011, DCAA was only 21 percent as productive as it was in GFY 2008—meaning that the audit* *agency was 89 percent less efficient. [Note: Math error in original post. Should have been 79 percent not 89 percent.]*

And subsequent **articles** confirmed that the drop in auditor productivity was not only systemic, but it seemed to be permanent as well. True, the stats varied a bit, but the trends and results were quite clear. For example, we **wrote** (in yet another article devoted to this topic) the following about DCAA's published GFY 2014 statistics—

DCAA reported that it still takes the audit agency more than 1,000 days to perform an incurred cost assignment and to issue an audit report to a cognizant Federal agency official (CFAO) for negotiation with a contractor. That means it still takes DCAA nearly three full years to perform an audit on one year's worth of contractor costs. … Despite those problematic numbers, DCAA reported that it had managed to 'close' 11,101 incurred cost assignments during the year, leading it to report that the agency had worked down its backlog of incurred cost audits to a year-end balance of 18,185 – for a reported reduction of 21 percent during GFY 2014.

Thus, our confusion. How could DCAA have reduced its backlog so dramatically without changing the underlying productivity metrics? If the agency is taking three years to audit one year, how could it ever have improved at all—let alone reached the point where it had less than two years' worth of backlog?

Our readers already know the answer to that question. We all know how DCAA was able to have the Comptroller certify to Congress that the backlog was down to 18 months.

DCAA didn't hire busloads of new auditors.

DCAA didn't improve auditor productivity.

DCAA didn't revise its approach to performing incurred cost audits.

Instead, DCAA simply redefined its backlog to exclude enough proposals so that the backlog could be reported to be at acceptable levels.

It was a bureaucratic trick. And we all saw it coming.

In May, 2012, DCAA split its “incurred cost” audit program into two: one for “major” contractors and one for “non-major” contractors. We posted comments from self-identified DCAA auditors that indicated this was the start of a larger strategy to focus on big-dollar audits and to “risk-away” or waive audits on small dollar contractor incurred cost proposals.

One commenter wrote—

Concerning the incurred cost workload, the plan for getting current is to sample the submissions that are less than $250M. Those that are less than $1M will likely never be audited because HQ views those audits as cost losers, which is no wonder given the amount of prepatory work (the risk assessment, increased transaction testing, and the greater number of reviews) now required. HQ is talking about more and more sampling (leaving more submissions completely unaudited), which will certainly incentivize some contractors to push the envelope when it comes to questioned costs. …

Another commenter wrote—

… DCAA wants to waive all possible incurred cost audits under $1 million too. And the metrics will show that we actually completed these audits. Waiving 1 low dollar incurred cost = completing 1 (only in DCAA does 0 = 1). Then there's our audit guidance - all of our audit guidance is being written for the largest contractors. Does our upper management get the risks at the nonmajors especially at a time when there is less spending and companies are going out of business or being bought out?

Indeed, those assertions proved to have merit. They were spot-on.

Just a few months later, we **told** readers that DCAA had developed a "risk-based" approach to determining which proposals to establish final billing rates it would choose to audit. Proposals determined to be "high risk" would be audited, while proposals determined to be "low risk" would be audited on a sample basis—and the sample would be based on the auditable dollar value of the submission. For example, *only one out of 5* low risk submissions with an ADV of between $50 and $250 million would be audited by DCAA. The other 4 submissions would not be audited. *Ever.* Nor would they be counted in the backlog statistics reported to Congress.

For another example of how risk-based audits were to work only *one percent* of submissions with an ADV of $1 million or less will be selected for audit. Of all contractor submissions with an ADV of $1 million or less, only one out of a hundred would be audited. The other 99 would not be audited. *Ever.* Nor would they be counted in the backlog statistics reported to Congress.

Brilliant plan, no? Only it didn't work.

In December, 2012, GAO Report No. 13-131 told DoD that DCAA's cunning plan wasn't working, because not enough contractors were being categorized as being "low risk." GAO wrote "Of 13,522 risk assessments completed, DCAA determined that 7,815 proposals were high risk, or *about two-and-a-half times more than it had initially anticipated*." (Emphasis added.) [*Note: we predicted this would be the case.*]

Only a few months into the plan, it was already clear that DCAA needed to change course. And so they did.

In October, 2013, MRD 13-PPD-021 directed auditors to put more contractors into the "low risk" category. It changed the definition of "low risk" to help auditors with the categorization but, more than that, the tone of the MRD made it very clear as to what the expectations were. For example, the MRD stated—

If the last incurred cost audit performed found no significant questioned costs, all proposals with less than $5 million in ADV should be considered low-risk unless significant relevant risk material to the incurred cost proposal exists, such as fraud referral (Form 2000), “unacceptable” opinion from a pre-award accounting review, no previous experience (e.g., voucher processing, forward pricing effort, pre-award accounting systems, etc.), or specific relevant risk with the contractor that has material impact to the incurred cost proposal (identified by the contracting officer or auditor).

And: “There will be no sampling for low-risk proposals with ADV