

DCAA Has Plans to Improve Its Statistics

Written by Nick Sanders
Wednesday, 10 May 2017 00:00

In our recent [review](#) of DCAA's GFY 2016 Annual Report to Congress, we ended on a fairly snarky note, writing—

Regardless of headcount, we have confidence in DCAA's ability to manipulate numbers, change metrics, and execute other bureaucratic tricks to make the audit agency seem like it is a great value for the U.S. taxpayer.

Go back and read that article, if you haven't yet done so. It will inform the rest of this article.

We were commenting on how DCAA spun the numbers to show the audit agency in the most favorable light. Of course, DCAA is not alone in that regard. Nearly every organization wants to be seen in a favorable light, and if there is a way to spin facts and figures to accomplish that goal, then that is what's going to happen. There's not necessarily anything wrong with that phenomenon—unless you think it's being done to protect those at the top from being held accountable for their decisions.

We have noted several “tricks” that DCAA has used to cast itself in a more favorable light. First, there is the “low-risk” audit initiative, where certain contractors are lucky enough to escape having their final billing rate proposals audited. The thing is, DCAA counts such non-audits as completed audits in its reported statistics. We noted that, when the initial “low-risk” plan didn't lead to a sufficient number of completed assignments, DCAA relaxed the qualification criteria to permit more proposals to be included in the non-audit category, thus leading to more completed assignments. We believe that trick tends to mislead Congress and policy-makers into thinking that DCAA is actually accomplishing more audits than it actually is accomplishing.

Second, DCAA recently announced that it was changing the way it measured audit duration. DCAA formerly measured duration from assignment opening to assignment completion; now it plans to measure duration from entrance conference to report issuance. Again, a misleading statistic because it ignores the time associated with risk assessment, which can vary from several days to several months. DCAA wants Congress and policy-makers to believe the audit starts at the date of the entrance conference, but anybody who has supported a DCAA audit in recent years will tell you the audit actually starts long before that date. Any DCAA auditor will tell you that hours spent performing risk assessment will be charged to the assignment. The facts don't support using that metric, but DCAA is going to use it anyway, because it casts the audit

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agency in a more favorable light.

After months of not publishing any audit guidance via Memorandum to Regional Directors (MRD), DCAA recently published two! Both are relevant to this topic.

In [MRD 17-PIC-005](#) (May 2, 2017), DCAA told its auditors that “NASA will no longer accept low-risk determinations issued by DCAA on contractors where the preponderance of the work relates to NASA contracts.” In other words, NASA wants its contractors’ final billing rate proposals to be audited. Good for NASA! The MRD also states that “For authorized audits where NASA does not have the preponderance of the work, audit teams must coordinate with NASA, as part of the low-risk determination process, to determine whether any issues/concerns exist on NASA contracts before issuing the low-risk determination.” Thus, it appears that NASA may reserve the right to have DCAA audit certain of its contracts, even if the contractor’s submission would otherwise qualify for the “low risk” treatment of not being audited.

Obviously, if NASA insists on having DCAA audit the final billing rate proposals of its contractors, even when DCAA would prefer not to do so, then that would tend to slow down DCAA’s ability to work down its backlog of such proposals—which is not going to make the audit agency look good.

But don’t worry! DCAA has a plan ...

In the second piece of audit guidance ([MRD 17-PIC-004](#) , April 25, 2017), auditors are told when to count the entrance conference as being held for contractors final billing rate proposals that qualify for low risk treatment—i.e., no audit. How can you have an entrance conference when no audit is being performed? A reasonable question! Nonetheless, since DCAA has chosen to now measure audit duration from entrance conference to report issuance, every assignment—even assignments where no audit is performed and thus no entrance conference will be held—must have an entrance conference date. The MRD notes “a wide variation” in dates auditors are inputting into the audit tracking system. Some auditors are inputting the date of receipt of the contractor’s proposal, while others are choosing the date on which a sample is run, and while others are inputting the date that the contractor is notified that an audit will not be performed. In an effort to establish consistency, DCAA leadership has directed that none of those dates will be used to date when the (non-existent) entrance conference take place. Instead, “auditors should enter the entrance conference date as the date the auditor begins to actually prepare the low-risk memorandum.”

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Why is this such a good thing, from DCAA's point of view?

Remember that DCAA will henceforth be reporting to Congress that the duration of its audits is based on the period between the entrance conference date and report issuance date. It will report an average duration across all incurred cost assignments for that year. In the case where no audit takes place, if the duration is based on the date the letter of non-audit is started and the date the letter of non-audit is issued, the duration is obviously going to be quite short. Thus, this "trick" will favorably impact the agency average audit duration and we will see this impact in future Annual Reports to Congress.

So while NASA's unwillingness to accept non-audits as audits will negatively impact DCAA's ability to reduce its audit backlog, the audit agency will be able to report that it has dramatically shortened the duration of such audits. We predict DCAA leadership will take credit for an innovative audit approach, and will lament that, if the audit agency only had more auditors, it would be in a position to apply that innovative audit approach to the backlog and eliminate it.

Which is what you get when you permit DCAA to use misleading statistics and other tricks to measure the efficacy of its leadership.