

More than seven years ago, I wrote an article for Contract Management magazine, NCMA's magazine for its membership. The article was called "The Year of Change for the Defense Contract Audit Agency." (Note that when I titled the article there was a question mark at the end; it was removed by the CM editors.) The subtitle was: *"A recap of some of the significant events of 2009, which may one day be viewed as a pivotal year in the history of defense contractor oversight."*

The article recapped what I've come to call "the DoD Oversight Wars," and serves as a historical reference for the "he said/she said" arguments that took place in 2009 between the various stakeholders. Re-reading it again as background for this 2017 article, I think it still stands up as a valuable resource, a decade later. (The article was published in the April 2010 edition of CM, for those who care to evaluate my opinion of my own writing.)

Quoting from the final two paragraphs of that 2010 CM article—

As the defense acquisition community moves into 2010, observers are hopeful that much of the conflict will abate. Of course, Fitzgerald still has quite a challenge in front of him, as he continues audit agency reform efforts aimed at generating high-quality audits that will provide contracting officers and buying commands with timely, useful information that support business decisions. It is clear that both DCMA and DCAA are under-resourced, and both agencies will need to develop training plans for incoming employees.

The conclusion of the story is not yet written, but the signs seem to point toward a satisfactory (if not completely happy) ending. If 2009 was the year of pain and the year everything changed, is it not fair to say that all parties hope 2010 will be the year of rebirth and the dawn of a new age?

If nothing else, the series of 1,100 blog articles on this site documents the history of DCAA's attempts to recover from those 2009 criticisms, and to reach a state where the audit agency is able to deliver high-quality audits that provide contracting officers and buying commands with timely, useful information that support business decisions.

We'll leave it to our readership to determine the extent to which DCAA has reached that desired state.

In this article we want to review DCAA activities over the past year. We want to summarize and discuss DCAA's calendar year 2017 accomplishments, for the historical record. We're not going to link to stuff we wrote, but you can find the articles associated with our summary via keyword search, if you're so inclined.

Stuff We Wrote About

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In 2017 DCAA continued to issue audit reports that expressed conclusions without sufficient evidentiary support for those conclusions. The DoD Office of Inspector General found that 37 percent of the DCAA audit reports it reviewed had one or more deficiencies with GAGAS (or GAS as they seem to be calling it now). In early 2017, we wrote about the Lockheed Martin Integrated Systems (LMIS) decision at the ASBCA—where the Judge criticized DCAA for reporting unsupported conclusions and advancing “plainly invalid legal theories” instead of sticking to the facts. In the case of Technology Systems, Inc. (TSI), DCAA withdrew from its audit and issued a “Decrement Memo” that contained recommendations that were based on nothing—at least, nothing that was compliant with GAGAS. Despite not completing audit procedures and providing a recommendation that was based on nothing more than HQ policy direction, DCAA failed to explain clearly to the Contracting Officer that its recommendation could not be relied upon, that it was essentially worthless even though four separate auditors had spent months performing an audit. Because DCAA did a poor job of explaining the basis (or lack thereof) for its arbitrary decrement recommendation—and then failed to communicate adequately with the CO during negotiations—the CO felt constrained to stick with “the audit as written” *even though it wasn't an audit*—which led to litigation. Litigation that could have and should have been avoided.

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In 2017 DCAA continued to obsess with the Cumulative Allowable Costs Worksheet (CACWS), also known as ICE Model Schedule I. We wrote about one contractor that found itself in court because it couldn't support values in the CACWS years after the costs were incurred. (That contractor won its dispute.) In 2017, DCAA issued MRD 17-PIC0-001, discussing “final voucher services” and including a 41-slide PowerPoint attachment that included a discussion of the CACWS. We outlined some possible (very aggressive) strategies for avoiding an update of the CACWS after negotiation and finalization of annual billing rates. Regardless of whether readers took our advice or continued to update the CACWS after rates were finalized, let's be very clear: when DCAA forced the 2011 FAR revision to 52.216-7 *it was pushing work from its own auditors to the contractor*. It was requiring the contractor to perform work that DCAA auditors had performed for literally decades

before. Yet despite continuing to reduce its workload at the expense of DCMA and contractors, the audit agency

still

cannot complete its audits in a timely fashion.

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And speaking of audit statistics, in 2017 we reported that DCAA continued to manipulate its metrics to be able to certify to Congress that it had reduced its embarrassing backlog of unperformed “incurred cost” audits to an acceptable level. As we noted, the position that a 2-year backlog is “acceptable” was invented wholly by DCAA HQ—and we were pleased to see that fiction soundly refuted by Congress in the 2018 NDAA. Still, in 2017 we reported that DCAA continued to close out two-thirds of all audit assignments without issuance of a formal report expressing an opinion based on GAGAS/GAS-compliant procedures. And we reported that DCAA has decided to change the way it measures audit duration. DCAA formerly measured duration from assignment opening to assignment completion; now it plans to measure duration from entrance conference to report issuance—which is a misleading statistic because it ignores the duration associated with risk assessment, which can vary from several days to several months. As we reported, DCAA is going to change its measurement of audit duration because it casts the audit agency in a more favorable light.

Stuff We Didn't Write About

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While we wrote about the missing Post-Award Accounting System audit program for Major Contractor, we didn't write about the new CAS cost impact proposal “adequacy tool.” It is a checklist intended “to assist the auditor in identifying issues to consider during the risk assessment” associated with reviewing a contractor's proposed cost impact related to a change in cost accounting practice. Despite the ostensible objective limiting scope to the risk assessment, the checklist concludes with the following direction: “Does the proposal appear sufficient to resolve the cost impact? Considering the proposal in its entirety, including the collective effect of the identified inadequacies, is there enough adequate and accurate supporting information to estimate the general dollar magnitude of the cost impact, or the impact by contract for a DCI. If not, coordinate with the CFAO return the inadequate proposal and obtain a cost impact proposal that contains the necessary information and format.” Furthermore, the “adequacy tool” tells auditors “If the GDM cost impact proposal is insufficient to resolve the cost impact, consider advising the CFAO to request a DCI in lieu of a GDM.” In other words, if the GDM proposal was inadequate, “consider advising” the CO to request a more detailed cost impact format. That direction seems a bit punitive to us.

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We didn't write much about DCAA audit guidance (i.e., Memoranda for Regional Directors). That's because the audit agency isn't publicly posting its MRDs the way it has done for most of its post-Internet history. By our count, DCAA published five MRDs on its website in 2017. One (dealing with subcontractor cost/price analyses) was publicly available for a couple of weeks before being removed. In 2017, the "PPD/PSC" nomenclature seems to have been replaced with a "PAC/PIC" nomenclature. Does that matter? Not really. But looking a bit more closely, it seems that DCAA issued at least five "PIC" audit alerts in 2017, of which three are still available to the public. DCAA issued at least eight "PAC" pieces of audit guidance in 2017, of which only one may still be accessed by the public. Where did the missing MRDs go? Well, one thing is for sure: they were not incorporated into the Contract Audit Manual (CAM). As of this date the CAM hasn't been updated since September 2016—with the sole exception of Chapter 2, which was updated in June 2017. Removing MRDs without incorporating them into the CAM seems to violate DCAA's own direction to its auditors about how to locate the most current audit guidance. Removing MRDs without incorporating them into the CAM seems to make it more difficult for contractors to understand what the auditors are going to be looking for and preparing for audits. We invite readers to think about those issues and how they may impact audit quality.

Non-DCAA Stuff Worth Noting

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While we noted in 2017 that the official CAS Board had gone missing in the new Administration (and really, it had gone missing for months if not years before the new Administration was elected), we didn't write much about the new Department of Defense CAS Board. The DCASB was created by the GFY 2017 NDAA and, really, who thought anything would come of that? Did anybody with a whit of historical perspective think that the people who brought us the DoD CAS Working Group—with all the problems its "papers" created for the acquisition community—were the right people to create Cost Accounting Standards for the Department of Defense? *No*. The answer is a resounding "no." The quicker that the DCASB is relegated to the trash heap of failed Congressional ideas, the better.

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While we devoted an article to the Section 809 panel's Interim Report, we didn't really have much more to say about that group's efforts to streamline and improve the defense acquisition environment. That's because nothing else happened. The Panel met several times during the year, but for the most part those meetings were "closed"—i.e., they were held in secret, away

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from the public's eyes. The GFY 2018 NDAA extended the Panel's mandate for another year, so perhaps we'll have something to report on in 2018. We certainly hope so.