

Written by Nick Sanders Monday, 05 February 2018 00:00

12 Require DCAA to obtain peer review from a qualified external organization.

13 Increase coverage of the effectiveness of contractor internal control audits by leveraging IPAs.

14 Incentivize contractor compliance and manage risk efficiently through robust risk assessment.

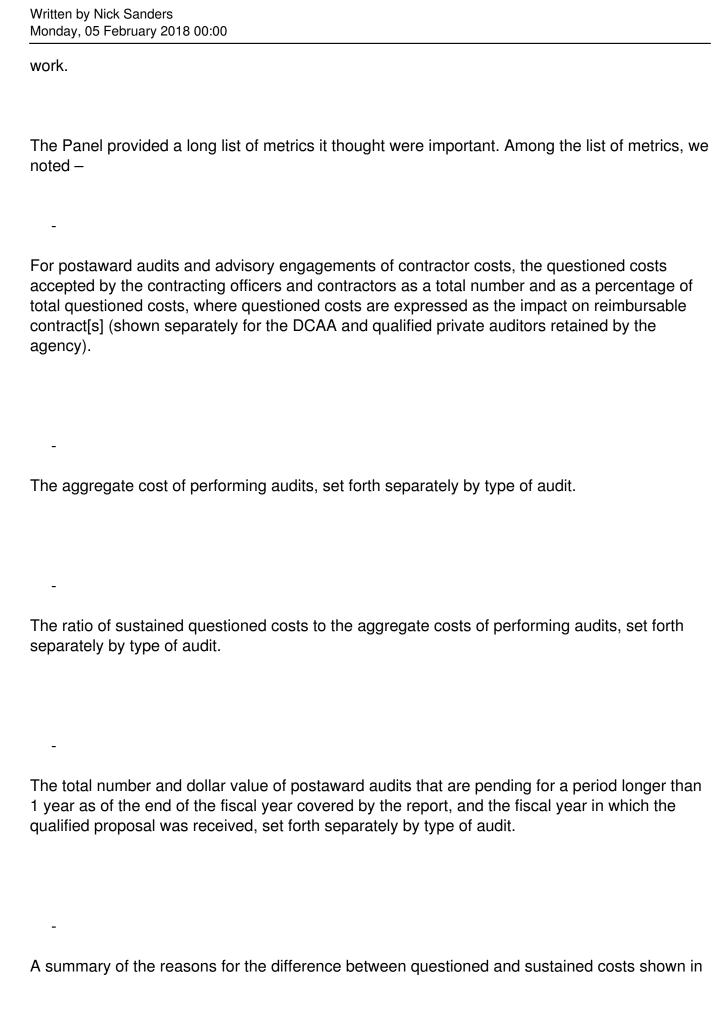
15 Clarify and streamline the definition of and requirements for an adequate incurred cost proposal to refocus the purpose of DoD's oversight.

Before we get into the meat of some of the recommendations above, notice that eleven of the twenty-four recommendations are devoted to contract compliance and audit. That's just about half the Report, in terms of recommendations. (Using the Panel's numbering and ignoring sub-recommendations.) That ought to signal to lawmakers and other policy-makers the importance that the Panel places on this issue, in terms of acquisition reform.

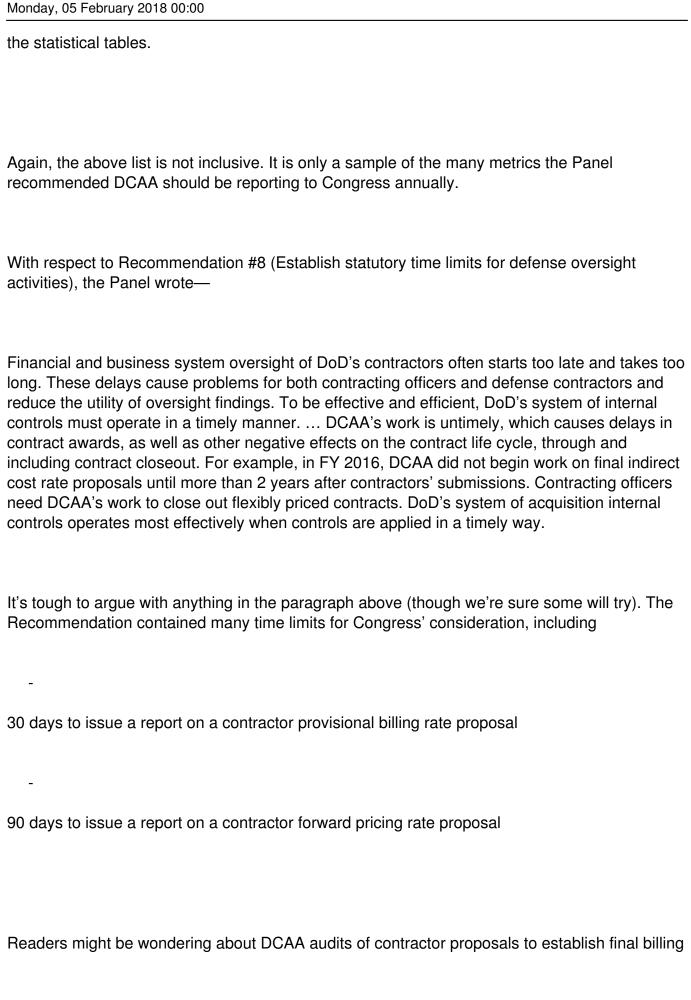
Now let's look at some of the recommendations, using quotes from the Report.

What kind of metrics should DCAA be reporting?

If DCAA is operating effectively, its success cannot be measured only in questioned and sustained costs. As DoD and contractor internal controls improve, there may be fewer costs to question and sustain. In contrast, worsening DoD and contractor internal controls may increase costs questioned and sustained. Similarly, DCAA's success as an organization cannot be measured by the quantity of audits at the expense of quality. Congress's current emphasis on questioned costs and DCAA's emphasis on return on investment alone do not adequately demonstrate performance. DCAA is not, and should not, be considered a profit center. Most importantly, the current DCAA report has no measure of DCAA's primary customers' (contracting officer or acquisition team) satisfaction with the quality and timeliness of DCAA's



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rates, commonly called "incurred cost proposals." That was covered in Recommendation #15 (Clarify and streamline the definition of and requirements for an adequate incurred cost proposal to refocus the purpose of DoD's oversight). We like this recommendation a lot, and not only because it repeats many of the things we've been asserting for years. The Panel wrote—

The term incurred cost proposal is not defined within federal acquisition regulations, the effect of which has been to create unnecessary burdens on both the Government and contractors. Incurred cost proposal is the government contracting community's shorthand way of referring to a contractor's *final indirect cost rate proposal*. An annual final indirect cost rate proposal, the elements of which are defined in FAR 52.216 -7(d), is necessary for the contractor and the government to establish final indirect cost rates for purposes of settling provisionally billed (i.e., estimated) indirect costs on flexibly priced contracts. ... A final indirect cost rate proposal is not a claim for direct costs incurred and billed during contract performance. FAR 42.702 indicates that an audit of the final indirect cost rate proposal is performed for the sole purpose of negotiating final indirect cost rates. ... In recent years, DCAA began auditing direct costs, as well as indirect costs, during its incurred *cost audits* 

Before then, DCAA's audit procedures concerning direct costs were limited to verifying their completeness such that final indirect cost rates are calculated accurately. In general, expanding the scope of incurred costs audits may increase the time it takes DCAA to complete incurred cost audits and increase the time it takes contracting officers to address and resolve the results of DCAA's audits.

The government added new requirements of an adequate final indirect cost rate proposal to FAR 52.216-7(d)(2)(iii) in 2011. These newly required elements of a final indirect cost rate proposal were directly based on DCAA's incurred cost electronic model, which DCAA created many years ago to help contractors prepare their final indirect cost rate proposals in a consistent manner and provide appropriate cost detail to make DCAA's audit oversight more efficient. Many of the required elements of an adequate final indirect cost rate proposal have no bearing on calculating, understanding, auditing, and negotiating final indirect cost rates. This collection of unnecessary data has contributed to DCAA losing its focus on the purpose and scope of contractors' final indirect cost rate proposal and has created unnecessary work for contractors, DCAA, and especially contracting officers. ...

DCAA must refocus on its mission of providing contracting officers with the information they need to do their jobs as prescribed in contracts and by the FAR. DCAA should not be auditing direct contract costs unless requested to do so by the contracting officer as set forth in FAR 52.216-7(g). Several final indirect cost rate proposal schedules that have no bearing on evaluating or settling final indirect cost rates should be removed.

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(Footnotes removed; emphasis in original.)

There's more to the Report, Section 2, than we have time or space to discuss here. There is Recommendation #10, which would revamp how DCAA reviews contractors' accounting systems. There is Recommendation #11, which would leverage collaborative input from external sources to define, document, and teach professional standards to DCAA auditors. Et cetera.

Suffice to say, if implemented as drafted, the recommendations in Section 2 would significantly improve contract audit and oversight in the defense acquisition environment. The problem, of course, is that, historically, such recommendations have been bitterly opposed by those who think they have something to lose by their implementation. We will all have to wait and see what DoD leadership and Congress do with these recommendations.

Do we need to tell readers that we endorse them wholeheartedly?