

At the end of May, DCAA [published](#) its Annual Report to Congress. Most of the contents might be already known to readers of this blog, since we publish DCAA audit statistics every so often—based on the numbers reported in the DOD Inspector General’s Semi-Annual Report to Congress. Still, there are some interesting factoids in the annual DCAA Report that we’d like to bring to your attention.

First, the numbers. We were interested to compare DCAA’s statistics to the DOD Inspector General’s statistics. It’s a tough comparison. For example, whereas the DOD IG reports Incurred Cost and Special Audits as one statistic, DCAA’s Report splits them out into two statistics. Thus, when we [reported](#) that DCAA completed 2,028 incurred cost assignments in GFY 2019, that value included “special audits.” Now we know (from the DCAA Report) that DCAA completed exactly 1,117 incurred cost audits and 822 special audits. We can’t explain why DCAA reported an aggregate total of 1,939 completed audits versus DOD IG’s reported 2,028 completed audits but – as they say – it’s probably close enough for government work.

Similarly, when we reported that DCAA was closing audit assignments via Memo at a rate that was three times higher than via actual audit report, we were interested to see that the DCAA Report stated that of the 6,047 Incurred Cost assignments closed in GFY, 4,930 (81.5%) were closed via Memo—such that closure via Memo was actually *four times more likely* than closure via audit report. Closure via Memo essentially means that no “real” audit was performed (*i.e.*

, audit by use of transaction testing to determine the allowability of claimed contractor costs). Thus, in our view, this is an indication that DCAA is not really doing incurred cost *audits*

(in the traditional sense of the term) on the vast majority of annual proposals to establish final billing rates that it receives each year.

Readers of this blog understand the lack of traditional audit is an intentional outcome from a DCAA leadership decision to adopt a “risk-based” approach to determining which contractor proposals it audits and which it chooses to close via Memo. We’ve written about that approach at some length. In our view, “risk-based” means “ROI-based,” such that DCAA doesn’t want to spend a lot of auditor staff hours auditing smaller dollar proposals, because the agency doesn’t get as much “bang for the buck” in terms of Return on Investment that it can report to Congress. Speaking of ROI, the DCAA Report noted that the agency’s GFY 2019 ROI on taxpayer funding was \$5.50 for each dollar “invested” in funding the agency. That’s a metric that agency leadership is proud of—and one that they don’t want to see decline by performing lengthy audits on small dollar proposals.

DCAA Auditors Asked to Do Less with Less

Written by Nick Sanders

Monday, 15 June 2020 00:00

Also, it should be recognized that DCAA changed the method in which it reported audit duration a few years ago. Instead of measuring the duration from the date a contractor's proposal to establish final billing rates was received to the date on which an audit report (or Memo) was issued, DCAA began measuring the duration from the date of the entrance conference to the date on which an audit report (or Memo) was issued. The new methodology cuts out all that time spent determining that a contractor's proposal is adequate for audit, and cuts out all that time spent performing risk analysis and required audit planning. Thus, instead of taking literally *three years*

to perform an audit of one year's costs, DCAA is now proud to report to Congress that it takes the agency only an average of 88 days. That's not an improvement; that's the result of a change in measurement technique.

That being said, DCAA has managed to tackle a large number of incurred cost assignments, such that by the end of GFY 2019, there were only 48 contractor proposals that had been languishing for more than one year past the determination that they were adequate for audit. That is a real improvement that should be acknowledged by all. As DCAA reported to Congress, "Of those currently pending, half are from reimbursable customers delayed due to customer funding and the rest are primarily on hold due to investigations." So kudos to DCAA for that.

Another interesting aspect of the Report to Congress is that DCAA is now reporting statistics about contractor spend on IR&D and B&P. (This reporting area is required by a recent Public Law.) According to DCAA, on average, a contractor spends six percent of its total indirect expenses on IR&D and three percent of its total indirect expenses on B&P. The statistic is not particularly useful, because indirect expenses can include many things such as fringe benefits, overhead, and other G&A expenses. However, it does provide a benchmark for you to measure your own company's spending in these two areas, should you wish to do so.

Finally, let's look at DCAA staffing and productivity. Both the DOD IG's Semi-Annual Report and the DCAA Annual Report agree that DCAA issued exactly 2,948 audit reports in GFY 2019. The DCAA Report told Congress that "in addition to issuing audit reports, DCAA reviews and closes thousands of assignments with low risk memos, which contain rate information allowing contracting officers to efficiently close contracts by setting rates." However, DCAA does not actually report the exact number of Memos issued. But the DOD IG Report does! Using the DOD IG Report's statistics, we know that DCAA closed a total of 11,214 assignments in GFY 2019.

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How does the GFY 2019 value compare to prior years?

Not so well.

For as long as we've been tracking DCAA statistics, the lowest quantity of assignments ever closed was in 2011, when 10,844 assignments were closed in that fiscal year. The GFY 2019 value is higher—which is good! But it's not *a lot* higher. Moreover, in 2010 DCAA closed 17,159 assignments, which is roughly *one-third more output than was reported in GFY 2019*

. That's not so good. But that was a long time ago, so let's look at more recent statistics.

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In 2016, DCAA closed 13,520 assignments

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In 2017, DCAA closed 11,068 assignments

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In 2018, DCAA closed 11,857 assignments

Thus, DCAA has closed an average of 12,148 audit assignments annually—but in GFY 2019 DCAA managed to close and issue only 11,214 assignments, even though more than 80 percent of those assignments were closed via issuance of a Memo, and did not involve any traditional audit procedures such as transaction testing.

That's not so good.

The decrease in productivity may have been caused by a decrease in auditors. DCAA's Annual

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Report states that audit staffing was 3,994 heads. That's down from the GFY 2018 level of 4,148—about a four percent drop in auditors available to perform work. However, if one compares assignments completed and headcount, one might calculate that in GFY 2019 DCAA closed 2.81 assignments per auditor.

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In GFY 2018, DCAA closed 2.86 assignments per auditor

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In GFY 2017, DCAA closed 2.66 assignments per auditor

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In GFY 2016, DCAA closed 3.36 assignments per auditor

Thus, while in GFY 2019 DCAA closed 2.81 assignments per auditor, in the prior three years DCAA closed an average of 2.96 assignments per auditor—nearly 3 assignments per auditor. So the GFY 2019 productivity statistics do not tell a great story, in our view.

In summary, DCAA is doing less with less. It is closing few assignments than has been the historical norm. And for those assignments it closes, it is closing them via Memo at the extraordinary rate of 4-to-1. In fairness, audit staff is down. But the staffing drop seems very much insufficient to explain the drop in productivity.