

Reactions to Allegations of DCAA Audit Quality Failures Run the Gamut from Pained to Hysterical

Written by Administrator

Monday, 05 October 2009 00:00

We have posted enough articles on the recent “public discussions” regarding assertions of Department of Defense (DOD) oversight failures to fill a book. (Actually not a bad idea, but we’ll table it for another time.) This article will discuss reactions to the various reports and testimony, from Congress, public “watchdog” groups, and from other media outlets. Before we get into the fun fireworks, let’s recap the recent action so far.

August 6, 2009 – GovExec.com writes about leaked internal DCAA memoranda discussing the findings of the upcoming GAO report regarding DCAA audit quality. The findings do not sound good. See the article on that story [here](#) .

August 12, 2009 – The Commission on Wartime Contracting in Iraq and Afghanistan (co-chaired by long-time DCAA executive Michael Thibault) hears testimony from (among others) DCAA Director April Stephenson, blaming “faulty accounting, cost-estimating, purchasing and other business systems” for “millions of dollars” of contractor overbillings to the DOD. Rather than focusing on DCAA, the Commissioners accused DCMA of “caving to the contractors and not acting properly on the Defense Department’s behalf,” according to an article on FederalTimes.com. See the article on that story [here](#) .

September 21, 2009 – The Commission on Wartime Contracting issues a Special Report (“Defense Agencies Must Improve Their Oversight of Contractor Business Systems to Reduce Waste, Fraud, and Abuse”) recapping the August testimony and managing to blame all parties—from DCAA to DCMA and the contractors—for “unreliable data” from contractors’ “weak control systems”. According to the Commission, DCAA auditors “are recognized experts on accounting matters, internal controls, and business systems,” while DCMA contracting officers “are not typically trained in these complex audit and accounting procedures and sometimes make questionable decisions, seemingly ignoring DCAA recommendations.” The dysfunctional

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relationship between the two DOD agencies allegedly “creates an environment in which contractors can exploit the agencies’ mixed messages and game the system to their advantage.” See the article on that story [here](#) .

September 22, 2009 – The GAO issues a report addressing the adequacy of contractors’ ethics and business conduct policies, and their related internal control systems. While reporting that nearly 100 percent of contractors surveyed had adequate policies, GAO castigated both DCAA and DCMA for failing to verify that their contractors had implemented a compliant business ethics program. GAO also alludes to a bit of bureaucratic finger-pointing, with DCMA telling GAO auditors that DCAA should be responsible for assuring that contractors have compliant business ethics programs, not them. See the article on that story [here](#) .

September 22, 2009 – The DOD Inspector General’s (DOD IG) August 31, 2009 report is released to the public. This report was a follow-up effort to the DCAA audit deficiencies identified by GAO in its July 2008 report, and designed to address allegations regarding employee intimidation by management and an abusive work environment. In its report, the DOD IG confirmed many of GAO’s initial findings and asserted that impaired independence by a DCAA Regional Audit Manager (RAM) led to the U.S. Air Force paying up to \$271 million in unallowable costs. With respect to the DCAA work environment, the DOD IG reported scattered employee concerns that “may have contributed to deficient audit work,” but only 18 percent of those auditors interviewed “had a supervisor change or direct a change to audit results or opinions.” (We note that the survey question did not address whether or not the supervisor changes were appropriate.) It’s our view that the DOD IG’s survey results do not support their conclusion in this area. See the article on that story [here](#) .

September 23, 2009 – The GAO releases its expanded report on DCAA audit quality problems, in which it reports “widespread” audit quality problems based on its review of 69 audits performed by seven DCAA FAOs. To be sure, the anecdotal evidence is damning. But in our

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view, GAO was overreaching by basing its general indictments of the audit agency on such a small, admittedly “not statistical” sample. More importantly, GAO examined audit reports only from offices that issued predominantly “clean” opinions of contractors’ internal control systems; there is every reason to believe that there was a many errors in reports adverse to contractors as there were in reports favorable to them. The GAO also took a shot at the DOD IG, asserting that its conclusion from a peer review of DCAA audit quality—that DCAA had “adequate” quality controls—was controverted by the actual findings of the DOD IG’s review. See the article on that story [here](#) .

All of which leads us to the September 23, 2009 hearing by the Senate Committee on Homeland Security and Governmental Affairs. Our article on the hearings is [here](#)

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So with the foregoing in mind, let’s take a look at the reactions to the story.

GovExec.com published a generally objective article by Robert Brodsky entitled “DCAA Called Out Again Over Mismanagement” which started with: “The Defense Contract Audit Agency needs a complete overhaul, including new leadership and more independence from the Pentagon” See the article [here](#) . The article reported various reactions from the Senate Committee members, “ranged from disappointment to rage.” The article reported the following:

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From Committee Chair Lieberman: "Perhaps in an effort to do too much, they are doing everything badly." DCAA "still seems driven by a culture that emphasizes speed and production of audits over the quality of results."

From Ranking Minority Member Collins: The GAO's findings are "an epic failure by the agency and the department."

From Committee Member Coburn, who "got sick" reading the GAO report: "I can't understand why the management of this agency hasn't been completely changed."

From Committee Member Claire McCaskill, who last year led the outrage over the initial GAO findings: "In the world of auditing, what has been happen[ing] here is a capital crime. There can be no bigger indictment of an agency than this GAO report. ... At this point, DCAA audits are a joke. If someone is not fired over this, I don't think anyone should ever take this agency seriously again."

The Project on Government Oversight (POGO), a nonprofit organization that focuses on exposing government corruption, expressed its "concern" about DCAA's "ability to effectively oversee DoD contracts. We are particularly troubled by DCAA Director Stephenson's testimony that despite the concerns raised by last year's GAO report, DCAA still only has enough funding to perform 65 percent of the audits they are required to complete. This raises questions as to whether the Comptroller's office is properly prioritizing resources and support for this agency.

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This may be due in part to a conflict of mission between the Comptroller's office and DCAA.”

Daniel Shulman, writing in Mother Jones, bastion of “smart, fearless journalism,” didn’t let facts interfere with the story. His [story](#), based on the Commission on Wartime Contracting’s report just a day before the Senate hearings, confused DCMA CPSR auditors with DCAA contract auditors, and said:

This explains a lot: Little league teams have more players than the Defense Contract Management Agency (DCMA) has staffers overseeing how military contractors are spending the government's money. Contract transactions have spiked 328 percent since 2000, but there are presently a mere 14 contracting officials monitoring them. ... Not only do Pentagon contractors lack adequate ‘internal controls’ to insure they are billing the government correctly, resulting in billions in costs that auditors can't verify, but the DCMA and DCAA ‘are not effectively working together to protect’ the government from getting bilked. Like feuding siblings, the agencies can't seem to agree on much and wind up sending ‘mixed signals’ to military contractors.

But perhaps the most telling response came (once again from Sen. McCaskill) who Tweeted the following:

Gonna be some tuf ?s for witnesses in a few at this hearng. Unbelievable problms at Def Contrctng Agncy. Top of my head is about to pop off.

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Followed by:

Complete failure of Def Contrct Audt Agency to meet auditing standards,no one fired. Hard to believe. Was I too mad?

So where do we (the taxpayers) go from here? Will we be reading again, next year, about the same issues at the same audit agency? Or will there be a new audit agency, more “independent” from its DCMA customers ... or perhaps led by somebody from “outside” the “insular” entity? Based on conversations with several DOD contractors, the primary emotion is one of anxiety, as they wonder if the government is about to throw away the playbook that’s been developed over the past 45 years. The bottom line is that all parties, from DCAA to DCMA and from contractors to taxpayers, want the same thing. They all want quality audits, based on facts and evidence, interpreted by the same standards applied to everybody. The difficulty lies in agreeing on how to get there.