



We recently posted [an article](#) largely critical of the Defense Contract Audit Agency.

Yeah. Big surprise.

We know. We get it. The bigger surprise would be if we wrote an article defending DCAA, telling readers that the audit agency was going good work. Well, all we can say is that we would write that article if DCAA merited praise.

You might be wondering whether we've ever posted an article about DCAA that wasn't totally critical. Yes, [we have](#). (Well, it wasn't *totally* critical, from a certain relative point of view.) In that less-than-totally-critical article, we wrote—"But despite what you may hear about DCAA, at least we don't have IG—or mainstream media—reports braying about defense auditors accepting gifts and going hunting with the defense contractors that they audit. So they've got that going for them...."

See, that was kind of not totally critical. So we are not *entirely* one-sided in our articles.

But yes, we mostly post articles that are critical of DCAA. Why? Because that's the kind of article that the agency's current guidance and audit output merits. Until we see both qualitative and quantitative improvement, we'll continue to post articles that point out the agency's many opportunities to make that improvement.

DCAA Addresses Audit Timeliness

Written by Nick Sanders

Thursday, 22 March 2012 00:00

In our recent, critical, article, we posited that perhaps somebody (or bodies) was hearing the complaints—not only the ones posted here, but those posted elsewhere. Or perhaps it was the consistent tone of criticism heard in Congressional testimony. Or maybe it was the many industry surveys that reported the downward trends in the defense acquisition environment. We've told you about all of them.

The source doesn't matter. What matters is that we think the message may be getting through.

The main piece of evidence we point to as support for our assertion is found in Section 805 of the FY2012 [National Defense Authorization Act](#) (NDAA). Section 805 of the NDAA requires the Director of DCAA to issue a new type of report to Congress, an annual report that will be in addition to the audit statistics reported by the DOD Inspector General in its

[Semi-Annual Report to Congress](#)

. The new DCAA annual report to Congress will include statistical tables depicting the following information—

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The total number of audit reports completed and pending

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The priority given to each type of audit

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The length of time taken for each type of audit

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The total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs)

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An assessment of the number and types of audits pending for a period longer than allowed pursuant to guidance of the Defense Contract Audit Agency

That kind of information could be very useful for those assessing DCAA's management direction.

Perhaps in preparation for the upcoming statistical reporting, DCAA recently issued new audit guidance (MRD 12-PPS—005(R), dated February 24, 2012) that establishes metrics for issuing timely audits of "forward pricing assignments" (*i.e.*, audits of contractor cost proposals). The MRD can be found on the DCAA website under "Open Audit Guidance." The MRD states—

Effective immediately, we are revising our practices to require an agreed-to due date be established ... for all forward pricing assignments We also are implementing a new performance measure to assess our progress in meeting agreed-to dates that audit teams establish. ... This performance measure will help DCAA to continually improve our services and processes.

Readers may recall that one of the main criticisms of DCAA during the 2008/2009 "Oversight Wars" was that it was managing by metrics, and more concerned with producing reports than with their intrinsic quality. So why is DCAA moving back to a metric focused on timeliness? (Aside from the Congressional reporting requirement, that is.)

According to the MRD—

Our forward pricing audits play a critical role in the procurement process and failing to provide, as promised, could compromise the negotiation schedule or result in our valuable audit effort not being used to assist in the negotiation of a fair and reasonable price.

Well, yes. There is a reason that DOD has created a Director of Pricing position, and there is a reason that DCMA is creating lots of new databases of contractor price and indirect rate information. There is a reason that the DAR Council is trying to implement a Contractor Proposal Adequacy Checklist. There is a reason that Contracting Officer after Contracting Officer is bypassing DCAA "field pricing assistance" and choosing to negotiate prices without the "benefit" of a DCAA audit report.

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The reason is that DCAA has chosen a path that leads to audit reports of dubious quality being issued far too late to benefit government negotiators.

The new timeliness tracking processes will affect more than audits of contractor cost proposals. According to the MRD, they will also affect audits of contractor Forward Pricing Rate Proposals and DCAA input into Cost Realism reviews. So in the spirit of “what gets measured gets improved,” we look forward to future improvement in those DCAA audit assignments.

But lest readers think this MRD marks the turning of a corner for DCAA, we need to share one cautionary note. At the end of the MRD we spotted the following verbiage—

Once DMIS contains sufficient data, the Agency will measure the percentage of time the Agency met our original agreed-to due date. DCAA will analyze the data to determine why dates are being met – that is, identifying best practices like milestone plans – or, identifying why dates are not being met – *such as delays in obtaining contractor information*. This will allow management the visibility needed to identify concerns and address the underlying issues to implement process improvements.

See that phrase we helpfully highlighted in italics for you? The part about delays in audit completion being caused by contractors not being responsive? Yeah, that. We’ve heard that before.

While we are certain that not all contractors are prepared for a rigorous GAGAS-compliant DCAA audit, and while we are sure that not all contractors are able to turn-around DCAA Requests for Information as quickly as everybody would like—we are similarly certain that the inability of DCAA to complete its audits in what any reasonable observer would consider to be a reasonable time is caused by its own approach to audits. From risk assessments that take months to year-long management reviews, and from an incorrect interpretation of GAGAS requirements to Internal Reference Reviews and an inappropriate focus on working paper documentation instead of the quality of auditor judgment, DCAA has chosen a path that has led it to this destination.

DCAA has made its choices and it needs to accept the consequences of those choices. The time for blaming contractors for the failings of the audit agency is long in the past.

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As we said, we look forward to seeing real improvement in both audit quality and audit timeliness. When we see that improvement, we'll tell you about it. We'll write an article praising DCAA.

Until then, we'll keep calling 'em as we see 'em.