

Should DCAA Be Disbanded? The Clock is Ticking ...

Written by Nick Sanders
Friday, 06 April 2012 00:00

“Should DCAA be disbanded?” This is a question we examine from time to time on this blog—the most recent example being [this article](#). In the article, published about a year ago, we surveyed a number of commenters—some with more knowledge than others—and concluded with the following assessment:

So where does the DOD’s premier audit agency go from here? It has a growing backlog of unfinished audits, a demoralized workforce, and customers who are turning to outside audit firms (and paying more) in hopes of getting more timely audit reports. What should be done?

Look, we make our living dealing with DCAA auditors and helping contractors successfully pass DCAA audits. The status quo keeps us busy and puts money in our pockets. But in all intellectual honesty, we are forced to say, this agency needs to immediately turn a 90 degree course correction. If it can’t do that, then we think another agency needs to take its place.

Since then, we’ve been nibbling around the edges of the question, asserting from time to time that the new DOD Pricing Center has, as its primary goal, the objective of eliminating the need for DCMA Contracting Officers to rely on DCAA “forwarding pricing” audits. We think—and we’ve heard our supposition confirmed by senior DCMA leadership in so many words (without anybody expressly saying so)—that DCMA wants to be able to evaluate and negotiate contractors’ cost proposals and forward pricing rate proposals without DCAA’s involvement.

We [told](#) our readers about Section 805 of the FY2012 National Defense Authorization Act, which requires the DCAA Director to submit a (new) annual report to Congress. That new report will contain a considerable amount of metrics and statistics, the kind of stuff that we [subsequently opined](#) “could be very useful for those assessing DCAA’s management direction.”

We also spent considerable word count [acquainting](#) readers with the recent report issued by the House Armed Service Committee’s Panel on Business Challenges within the Defense Industry. That report contained quite a few recommendations based on input from a number of sources (including defense contractors themselves). Many of the recommendations seemed designed to address perceived DCAA and DCMA shortcomings. For example—

-

Congress should direct the Secretary of Defense to increase oversight of the management, functionality, and operations of DCAA and DCMA to reduce the backlog of audits, and to improve the audit agencies’ relationship with the industrial base.

Should DCAA Be Disbanded? The Clock is Ticking ...

Written by Nick Sanders
Friday, 06 April 2012 00:00

-

Congress should direct the Secretary of Defense to examine the Department's organizational structure and assess the feasibility and advisability of reorganizing the Department to realign DCAA and DCMA to improve communications, audit performance, oversight, and management.

That's pretty heady stuff. But perhaps the more telling recommendation is the following—

-

Congress should examine other alternatives, to include the establishment of a self-regulatory option, to providing auditing, accounting and advisory services regarding contracts and subcontracts and examine the feasibility of using such alternatives for the DIB to potentially reduce or eliminate many of DOD's internal audit organizations while ensuring compliance with statutory, regulatory, and contractual requirements.

But that's not all. We have seen several other, related, articles and op-ed pieces that suggest policymakers are considering a significant restructuring to DCAA.

This [National Defense Magazine blog](#) reviews the HASC report and reports—

Burdensome regulations and arcane auditing requirements are driving many companies to quit the defense market, and are deterring new suppliers, the report said. As a result, the panel will be asking the Pentagon to study options for outsourcing auditing responsibilities to independent agencies. ...

The auditing reforms that [Representatives] Shuster and Larsen propose are likely to spark controversy, as they are a radical departure from the way the Defense Contracts Auditing Agency does business. But Shuster said he believes a FINRA-like model — where a financial industry-funded agency is in charge of enforcing regulations — could be applied to defense in

Should DCAA Be Disbanded? The Clock is Ticking ...

Written by Nick Sanders
Friday, 06 April 2012 00:00

order to relieve an overstretched DCAA work force. This approach would still allow for high-level government oversight, he said. An outside group can 'do things more efficiently,' said Shuster. 'We are going to have to study this.'

Larsen cautioned that outsourcing auditing functions does not mean backing off anti-fraud initiatives. But when he heard that a company four years ago spent three days tracking down \$58 he knew something was wrong. 'That's the other extreme,' he said. 'Perhaps there's a happy medium.' ...

The defense contracting and auditing environment is as bad or worse than it was 10 years ago, said Shuster. 'Program managers are more risk-averse than they were 10 years ago,' he said. 'And I don't know that we can legislate that.'

The foregoing blog is published by an defense-related industry association (the NDIA) and its anti-DCAA reportage might be discounted on that basis. But we found another source, the Center for American Progress, whose progressive (and presumably liberal) credentials are above reproach. Here's what they [had to say](#) about this issue—

Three years ago, as many as 30,000 audits of government contracts a year were conducted annually. That number has now plunged to 10,000 audits per year despite the fact that the dollar value of contracts issued has remained steady. The time taken to check up on proposed prices before a contract is awarded now stands at 72 days, up from 28 days only two years ago. ...

DCAA responded to [GAO's] criticisms by emphasizing additional work documentation, but now questions are being raised if the agency isn't placing too much emphasis on following questionable practices that add little to the quality of audits, to the detriment of conducting hard hitting audits. 'In a time of scarce government resources and an inadequate contracting workforce, the government must evaluate where it is most vulnerable and focus resources where they can most effectively protect taxpayer dollars,' said Sen. Claire McCaskill (D-MO) at a recent congressional hearing on fixing the existing auditing system.

In response to the critical GAO report and Congressional hearings, the Defense Contract Audit Agency has attempted difficult shifts in its bureaucratic culture over the past three years. However, many believe that these changes have not been for the better, but have actually lessened oversight of government contractors. In particular, DCAA now seems to be focusing on fewer contracts, and this is clearly not good enough.

The foregoing was essentially a preface to the report on DCAA issued by the Center. The report "profile[s] the different reasons audits by the Defense Contract Audit Agency sometimes fail, and what's been done to correct these failures in the past." One of the recommendations contained in the report is to "evaluat[e] whether the Defense Contract Audit Agency should report directly to Congress rather than to the Pentagon as is presently the case."

Should DCAA Be Disbanded? The Clock is Ticking ...

Written by Nick Sanders
Friday, 06 April 2012 00:00

You can find the Center's report [right here](#). It contains little that's new, but does provide some fascinating behind-the-scene details. For example—

Shortly before he retired, Bill Reed was fond of showing his staff a PowerPoint slide that claimed that the cost of a DCAA audit was \$116.24 per hour in 2006 compared to the Big Four audit firms such as KPMG and Price Waterhouse, which billed an average of \$162.81. But in reality, DCAA's costs were lower for one simple reason—it had far fewer qualified auditors than the Big Four allowing it to pay lower salary costs. In 2011 Patrick Fitzgerald, the director of DCAA, estimated that just 28 percent of his staff were qualified CPA's compared to a Big Four rate of closer to 50 percent.

The Defense Contract Audit Agency is also unusual in that many of its managers and supervisors are not qualified CPAs, yet they are required to sign off on audits, a practice that would be illegal in the commercial world. This practice has caused dissent in the ranks of the staff that are qualified to sign off on audits in public practice but prohibited at the agency, sending a signal that loyalty was promoted over competence.

'By permitting non-CPAs to manage CPAs in audit work, DCAA culture has turned the established auditing profession on its head,' a 20-year veteran of DCAA in northern California says. 'It is the equivalent of a novice directing a journeyman on how to build a house or conduct any other trade or profession that has developed and refined its purposes and standards over the centuries.' He estimated that in one year audits of \$2.8 billion of the \$4 billion were put under the responsibility of non-CPAs supervisors at the Peninsula branch office just south of San Francisco.

The report concludes—

Three years ago the Defense Contract Audit Agency came under fire for an obsession with getting through too many audits, too quickly. 'We're talking about serious sirens, bells and whistles all going off at the same time,' said Sen. McCaskill at a 2008 hearing in Congress. 'I think the system is failing. The culture is broken, the performance metrics are broken, and the oversight is broken.'

Today the opposite is true—contractors are now complaining about the auditors taking too long to determine prices. It is clear that the federal government needs more professionally qualified auditors to get the job done. 'DCAA cannot always accommodate non-Department of Defense requests for audit support,' said Thomas Skelly, the director of budget services at the U.S. Department of Education, in a recent congressional testimony. 'Obtaining audit support from a non-governmental firm can be costly and time-consuming.'

While we do not agree with all (or even with many) of the report's recommendations, we think it supports our assertion that DCAA is coming under scrutiny from many diverse stakeholders. We think it supports our assertion that DCAA is moving into the cross-hairs of a number of powerful parties, who may well seek to significantly restructure or even eliminate the audit

Should DCAA Be Disbanded? The Clock is Ticking ...

Written by Nick Sanders
Friday, 06 April 2012 00:00

agency altogether.

As if to reiterate and strengthen our assertions, Government Executive published [this story](#) on the testimony of Pratap Chatterjee (the author of the Center's report) before the Senate Homeland Security and Governmental Affairs Ad hoc Subcommittee on Contracting Oversight. The story quoted Chatterjee's testimony as follows—

Additionally, Chatterjee said, because most contracts come from Defense, the Defense Contract Audit Agency handles the lion's share of all federal contracting audits. Since DCAA is nestled within the Pentagon, it is unable to maintain proper independence when making decisions about the fiscal responsibility of military contractors, he said.

Chatterjee would instead like to see a new Federal Contract Audit Agency, which would reside outside the Pentagon, allowing it to maintain independence when attempting to recover taxpayer dollars contractors spent improperly. However, he did not formally recommend such an agency in his report.

We think we've made our point.