

More on DCAA's Never-ending Backlog

Written by Nick Sanders
Thursday, 31 May 2012 00:00

As mentioned in our [previous article](#) on this topic, DCAA has dug for itself a ginormous, almost unbelievably deep, hole of a backlog. Not to pile on too much, but we have some further news and some further thoughts on this pressing topic that we believe merit another article. So here's what's new—

1.

It has been brought to our attention that Mr. Loeb's original article ("DCAA—Is Anybody Home?") contains some questionable math. When he wrote that DCAA's productivity has declined by 400 percent over the past three years, he was perhaps inverting the numerator and denominator of the equation. In GFY 2008, DCAA issued 30,352 audits; while in GFY 2011, DCAA issued 7,390 audits, for a decrease of 22,962 audit reports issued. It is true that $30,352 / 7,390 = 410$ percent; but we believe that's not quite the correct way to calculate the productivity decrease. Instead, $7,390 / 30,352 = 24$ percent, meaning that today's DCAA is 76 percent less productive than it was in 2008. It doesn't play as well in the media, but that's probably the more correct way to express the situation.

2.

Similarly, when we used Mr. Loeb's arithmetic on DCAA's backlog of "defective pricing" audits, we reported a productivity decrease of 1,148 percent. Correcting our math, we see that DCAA's GFY 2011 output of post-award audits was only 9 percent of its GFY 2008 output, meaning that today's DCAA is 91 percent less productive than it was in 2008. (Thanks to "Bill O-5" for pointing out the math issues.)

In related news, Federal Times and Federal News Radio have picked up the story. Here's [a link](#) to the Federal Times story. Key quotes from that story include:

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DCAA officials attribute the slowdown to their focus on quality and thoroughness in their audits.

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... spokeswoman Lt. Col. Elizabeth Robbins said in an e-mail [that] ... few audits in the current backlog are at risk of running up against the six-year limitation ... an exact number could not be immediately determined, she said.

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While DCAA is issuing fewer audit reports than in the past, the agency is questioning more costs and producing greater net savings, Robbins said. ... 'Clearly, 2011 was more effective for the taxpayer,' Robbins said.

First, we were completely unaware that DCAA—a civilian agency within the Department of Defense—now employed a military spokesperson. Second, we believe that Lt. Col. Robbins may have been misinformed regarding the number of incurred cost proposals running up against the six-year statute of limitations contained in the Contract Disputes Act. Third, we can hardly disagree more with her assessment that DCAA's 2011 was "clearly" more effective for the taxpayer. We wrote a whole blog article taking issue with DCAA's assessment of its GFY 2011 as "successful." In fact, we judged it to be "pathetic."

Our frenemies over at the Project on Government Oversight (POGO) [ran the story](#) as well. What's interesting about the POGO blog article is the comments from self-identified current and former DCAA employees. We counted about twenty comments as of the time we wrote this article. All but one were supportive of Mr. Loeb's article and called for significant reforms at DCAA. Here's a smattering to give you the idea (unedited except for length).

"John" wrote –

As a manager of DCAA, I am truly embarrassed with our performance. My office has not completed an incurred cost audit or ICAPS audit since 2009. We were required to develop a plan to get current on our incurred cost by 2016 and it is a phoney plan. There is no way we will get current without approving incurred cost claims with no audit (defeats the purpose of having an audit agency). ... We are worse than ever! The numbers presented in the article speak for themselves. The reality is that we spend millions of dollars on management reviews that are meaningless. We are so inefficient that it is embarrassing. My office accomplished more audits in one month in 2007 than we accomplished for 12 months in 2011. If I was eligible to retire, I would be out the door today. I am truly embarrassed to say I am a manager in DCAA. I used to be proud.

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"DCAA Auditor" wrote—

... The agency is controlled by fear. A fear of being second guessed by the internal police. So what do people do? We do nothing but document files to an insane level. Managers have work piling up on their desks as they agonize over approving a risk assessment. God forbid we don't have the perfect format. How do these managers make the decision to get out of bed in the morning? How can they be sure they don't slip in the shower, have a car accident? Is it worth the risk? Why not just lay in bed, it's not worth the risk.

Mr. Loeb's article is spot on. The truth hurts and Mr. Loeb has pretty much told it like it is. ...

"Ed" wrote—

Excellent article and blog by POGO. Time to expose DCAA. ... the findings that we are counting as questioned cost are not real questioned cost. We count unsupported cost as questioned cost which we never did in prior years so we do not have an apples-to-apples comparison. Third, this approach completely misses the reason for DCAA. We are supposed to audit cost-type contracts after contract award. We have stopped auditing contract costs after award. We do not audit internal controls or compliance with CAS. There are no questioned dollars with these assignments so Fitzgerald does not want us to waste our time with these audits. But these audits are exactly why DCAA exists. Loeb is correct that we need to get back to our core mission and audit contract costs and stop the wasteful spending on proposals. We need to accomplish the internal controls, CAS, and costs incurred on cost-type contracts. ... So we have a perfect forward pricing audit. In the meantime, overpayments are occurring all over the place and DCAA is nowhere to be found. ...

"Mike" wrote—

... The battle used to be with the contractor. Now the battle is with management and the DCAA CIGIE police. We spend more time defending the risk assessment, audit steps, working paper documentation, and stat sampling, than we spend on the audit. We waste so much time on nonvalue effort that there is no time for actual audit work or the audit is so late that it is of no use. ...

"Lauren" wrote—

... The entire risk assessment phase of audits has to be re-worked. You can't treat a Raytheon the same way you treat a three person company but we do. The B-02/risk assessment is make work, then we have to document what was done there in the detailed work papers. So much time killing non value added work. ... We have many hard working young smart people at DCAA who are already defeated by the DCAA make work mentality. Until DCAA works for the taxpayer in mind and not some mid level bureaucrat within the DCAA bureaucracy, nothing will

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change.

“Gerry” wrote—

... We need to get back to the systems approach to auditing where each audit builds upon the next. We need to determine whether forward pricing needs to be completed as an audit under GAGAS or financial advisory services. We need to get back to having a sense of urgency and understand that customers cannot hold a procurement for 4-5 months waiting for an audit. ...

Some of the POGO commenters offered insight into how DCAA might approach reducing its pile of unperformed audits.

“Roger Thornhill” wrote—

... Concerning the incurred cost workload, the plan for getting current is to sample the submissions that are less than \$250M. Those that are less than \$1M will likely never be audited because HQ views those audits as cost losers, which is no wonder given the amount of preparatory work (the risk assessment, increased transaction testing, and the greater number of reviews) now required. HQ is talking about more and more sampling (leaving more submissions completely unaudited), which will certainly incentivize some contractors to push the envelope when it comes to questioned costs. ...

“Waiver Me and Count” wrote—

... DCAA wants to waive all possible incurred cost audits under \$1 million too. And the metrics will show that we actually completed these audits. Waiving 1 low dollar incurred cost = completing 1 (only in DCAA does 0 = 1). Then there's our audit guidance - all of our audit guidance is being written for the largest contractors. Does our upper management get the risks at the nonmajors especially at a time when there is less spending and companies are going out of business or being bought out? ... We can get plenty of these audits done if we had the prior audit programs that were geared towards non-major contractors. The new B2 is overkill and redundant. It's confusing. It's too much for a small contractor where an audit is performed by 1 person. Who really understands it? It's not user-friendly for auditors. Then it appears HQs wants to staff up the largest contractors with more people because that's the only places where risk exists to them. Are those contractor personnel going to be able to respond quickly to all the requests being thrown at them at one time? What are the idle auditors going to do? What are the auditors in the mobile branches going to do? Travel money seems to be going away. So what are the auditors in the mobile branches going to be doing? What is the plan? At the mobile places, the staff knows there is audit risk that shouldn't be overlooked. ... The upper management is holding FAOs accountable for completing so many incurreds each month. A very stressful situation for those in charge of issuing the most incurred cost reports - you

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constantly get the emails 'how many are you going to get done? How many? Some supervisors have none and others have numerous reports. Then there's the cancelled assignments. How many audit hours were wasted on cancelled assignments this year? Might be enough to complete those 'possible waiver' nonmajor audits. ...

There's one more point we want to discuss before we close this out. It's about the next generation of DCAA auditors. We have posted (more than once) our opinion that DCAA has capable, experienced auditors who should be allowed to exercise judgment in the performance of their audits. Unfortunately (as we know all too well) that's not the case these days. Between SAQs and IRRs and multiple levels of review, there is essentially no chance for an auditor to exercise judgment. What are the implications of this top-down quality control regime?

It is common wisdom that most defense contractors and, indeed, the entire civilian workforce of the Defense Department are in the midst of a human capital crisis. The majority of employees are retirement-ready now.

Soon, the senior, experienced, auditors who are capable of exercising judgment without multiple levels of oversight will retire and the next generation of auditors will take their place. What skills and knowledge will the next generation bring to the table?

Mr. Loeb wrote in his article—

Sadly, given the direction of DCAA, it does not appear that it is training its auditors in the art of auditing and sifting through records to find overcharges. Rather, DCAA is developing a generation of auditors that understand the art of working paper documentation and having team discussions.

The time is now for DCAA to develop its next generation of auditors. And yet, rather than seek to develop auditors capable of exercising discretion and professional judgment, the agency seems to have chosen to develop auditors who are masters of risk assessments and working papers. And we think that's a damn shame.

DCAA: time to change direction. Right now, before it's too late.

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