

Written by Nick Sanders
Wednesday, 09 July 2014 09:16

It's time once again to look at [the latest](#) DOD Inspector General Semi-Annual Report (SAR) to Congress, covering the six month period October 1, 2013 through March 31, 2014. We focus (as always) on Appendix D, Contract Audit Reports Issued. This is where the official DCAA statistics for the period are reported.

In the latest six month period, DCAA issued 2,267 audit reports, of which 1,419 were related to audits of contractors' proposals to establish final billing rates (also known as "incurred cost proposals"). That number was slightly less than the 1,707 similar reports the audit agency issued during the same period last year (And by "slightly less" we mean 17 percent less.) Similarly, audit reports related to contractors' cost proposals were down 14 percent and "post-award" defective pricing audit reports were down 25 percent, when compared to the same period last year. In contrast to the other areas, DCAA reported a 25 percent increase in CAS-related audit reports issued.

We like to track the number of audit assignments completed versus audit reports issued, in order to see how many assignments are completed without being subject to a GAGAS compliance review. We've [asserted in the past](#) that DCAA has developed a penchant for issuing Memos in lieu of formal audit reports, in order to escape CIGIE scrutiny.

The trend continued in the latest SAR, which reported that 3,515 assignments were completed without issuance of a formal audit report. That means about 61 percent of DCAA's assignments were completed without an audit report, compared to 54 percent in last year's six-month period.

We can debate whether the number of audit reports (or Memos) issued is a meaningful measure of productivity. But it's harder to argue against the notion that the amount of dollars examined is a meaningful measure of management deployment of scarce auditor resources. In the latest SAR period, DCAA examined \$50,121,100,000 – yes, that's 50 Billion with a "B". That's a lot of dollars! But it's not as much as DCAA examined during the comparable six-month period last year. In fact, *it's six percent less*. Breaking the numbers down a bit more, DCAA reported that it examined significantly more (nearly 50 percent more!) incurred cost proposal dollars than it did last year; but that increase came at a price. Examination of dollars in contractors' cost proposals was down about 35 percent, and examination of dollars related to CAS matters was down more than 90 percent.

The stats above tell us that DCAA has, indeed, redeployed auditors to focus on its backlog of incurred cost proposals, and that DCAA is working hard to try to meet its commitment of having the ginormous backlog whittled down to manageable size by the end of GFY 2016 (September 30, 2016). It's too soon to forecast whether DCAA management will be successful, but we can tell where the audit focus is – and it's in the right area.

The resource shift also may be driven by outside circumstances. Sequestration and DOD budget pressures would seem to have reduced the number of contract award opportunities, and thus the number of contractor proposals for those opportunities. Consequently, the fact that DCAA auditors are reviewing fewer (or lower dollar value) contractor cost proposals may simply be the result of having fewer to examine, rather than stemming from any intentional management resource redeployment.

We've noted in the past (with some angst) DCAA's focus on the absolute amount of questioned costs, rather than other metrics we believe would be better suited to evaluate how the agency is doing. Nonetheless, that still appears to be DCAA management's primary metric. In the latest SAR, DCAA reported that 4.7% of every incurred cost dollar examined was questioned. That value is significantly less than the 9.6% questioned-cost-dollar-to-claimed-incurred-cost-dollar ratio reported in the same period last year.

Indeed, reported questioned costs values (a number in which we include "funds put to better use" for our analyses) are down across the board. DCAA's reported value of \$3.213 Billion is down 37 percent from last year's six-month period. Interesting, isn't it?

Now, for your amusement and edification, here are some charts to illustrate some trends.

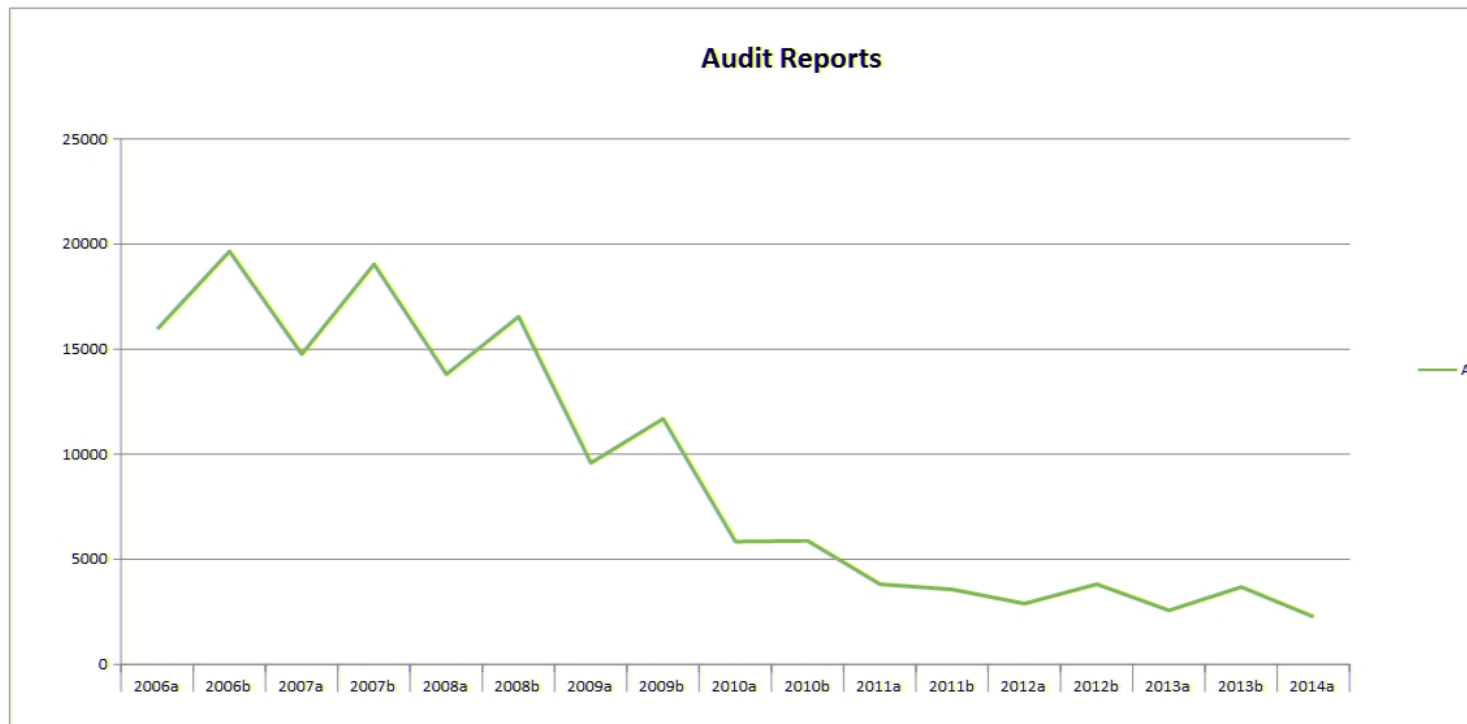
1.

DCAA Audit Reports Issued by SAR Period

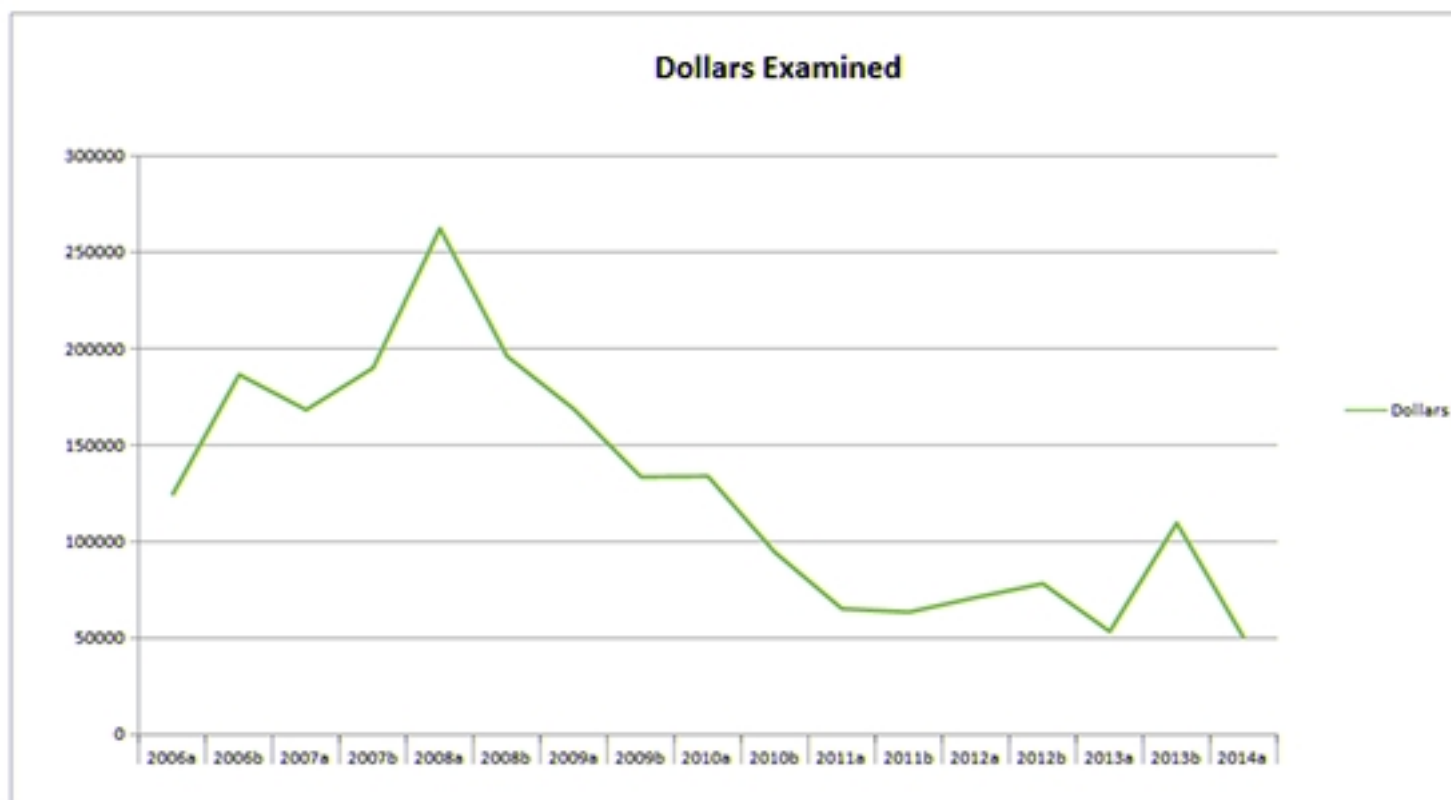
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2. Dollars Examined by SAR Period (\$ Millions)

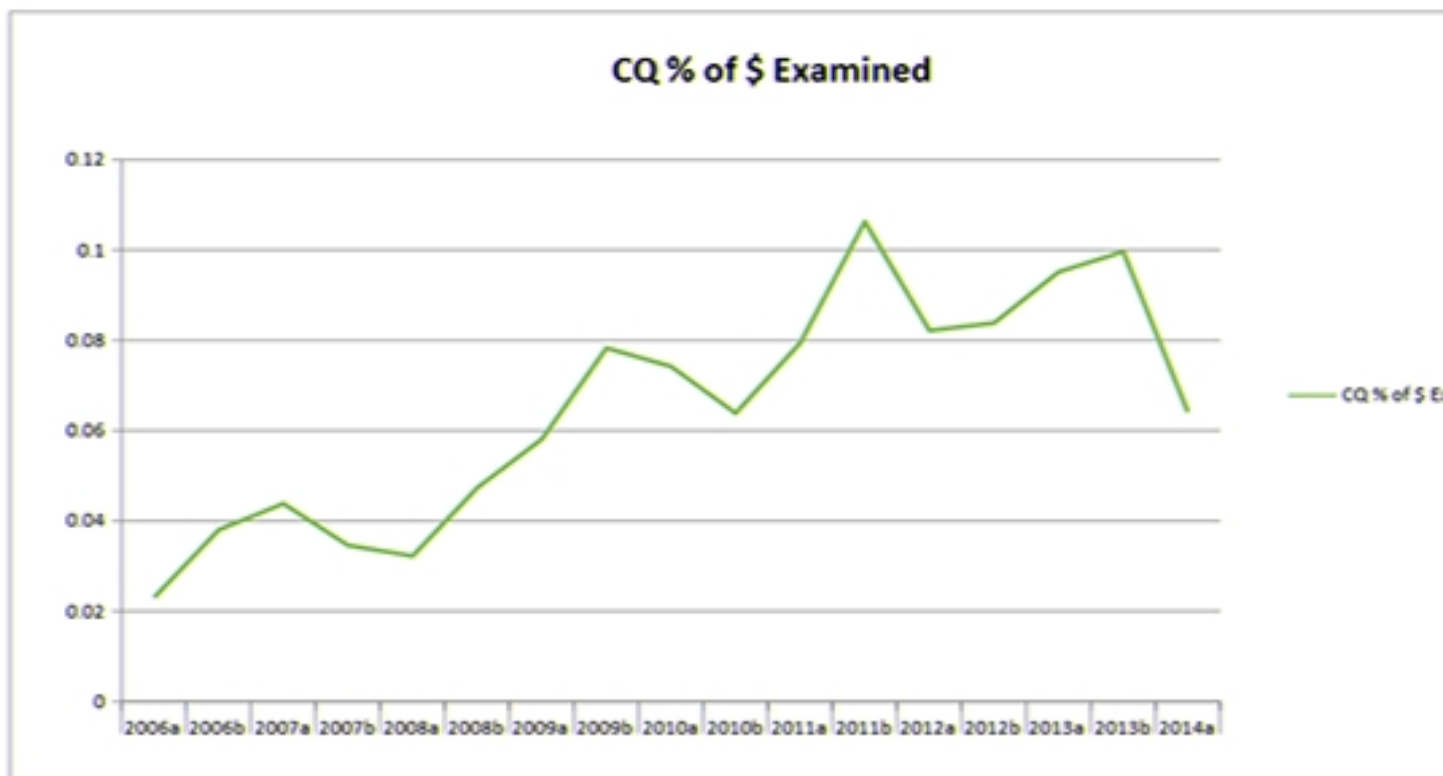


3. Questioned Cost as a Percentage of Dollars Examined (Includes Funds Put to Better Use)

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