

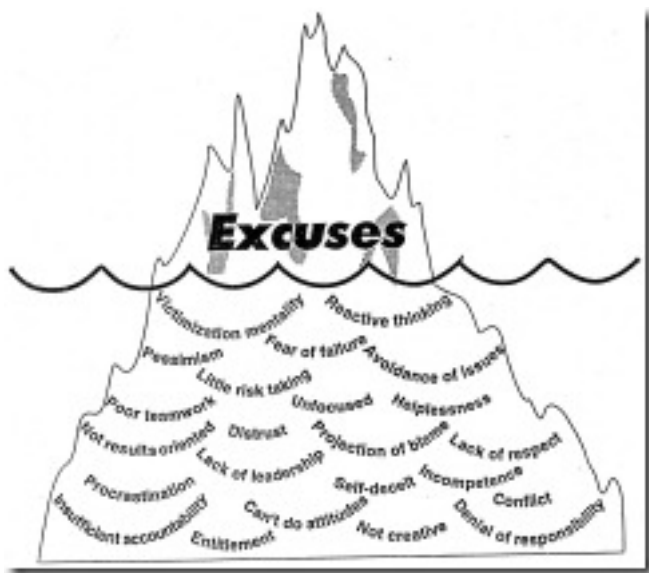
## Fixing DCAA

Written by Nick Sanders

Wednesday, 05 November 2014 00:00

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***“ The DCAA provides a valuable service to the DoD as their workload permits. One of the major contracting audit services that DCAA provides is to audit contractor's [sic] annual final indirect cost proposals to ensure that the contractor is charging the Government only costs that are allocable, allowable and reasonable. Unfortunately, the demands for DCAA services far outweigh their internal capability and as such, have tremendous backlog for these high risk audits. ... Can you make any recommendations to eliminate this imbalance between supply and demand.”***



Why, yes. Thank you for asking. We have several thoughts to offer for your consideration as you ponder this problematic situation.

First of all, we do not agree with your premise that there is an imbalance between supply and demand for DCAA audit services, especially in regard to those services involving audit of contractors' annual proposals to establish final indirect cost rates pursuant to the requirements of contract clause 52.216-7. There is no imbalance and, until you move from that false foundational premise, you cannot begin to fix the problem.

Until you recognize the real problem you cannot fix it.

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Supply isn't the problem. In 2008 there were 3,500 DCAA auditors. In 2013 there were 4,933 auditors. (According to Chad Braley's recent presentation at the BDO/PCI DCAA Audit seminar.) Based on those numbers, in five years DCAA added 1,433 auditors. DCAA staffing was increased by *more than 40 percent*. That whopping increase in the number of auditors didn't help the situation at all.

In 2008 DCAA issued more than 30,000 audit reports. In 2013 DCAA issued 6,259 audit reports. Over a five year period, DCAA managed to *drop its output by nearly a factor of 5* while increasing staffing by 40 percent.

According to DCAA's Annual Report to Congress, on average it currently takes the audit agency nearly 3 years (1,090 days) to issue an audit report covering a contractor's proposal to establish final billing rates for a single year. That's right: it takes DCAA nearly *three years to audit one year*, on average. That means that (all things being equal) for each year that passes, DCAA falls two years farther behind.

That's not to say that the audit agency hasn't made progress in reducing its backlog. It certainly has. But the fact of the matter is that the backlog was reduced by [bureaucratic tricks](#) rather than by performing audits. For example, calling a contractor's "incurred cost proposal" *inadequate for audit* means that the agency no longer has to count it as backlog. Other contractors have their proposals declared to be "low risk" and are not audited (or have every third proposal audited.)

The foregoing trends are not anomalies; they are facts. The problem of a growing backlog of "incurred cost proposals" awaiting DCAA audit is not a function of the number of auditors. Apparently, the more auditors DCAA has added, the lower the productivity of the average auditor. (This is correlation and not causation, in case anybody cares about such things here.)

DCAA has been adding resources but the problematic situation isn't getting any better. The situation has gotten to the point where even DCMA representatives making official presentations to the public have stated (in writing) that DCMA is considering implementing innovative processes to finalize contractors' billing rates in "recognition that business as usual will not allow us to catch up."

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Think about that phrase for a second.

*“ Business as usual” will not permit the contracting parties to accomplish the audit, negotiation, and finalization of indirect cost rates in a timely fashion.*

“Business as usual” – which means “business conducted in accordance with the FAR and contract terms and conditions” – is no longer seen as an acceptable approach to solve the problematic situation in which the Pentagon and its contractors find themselves.

“Business as usual” worked pretty well for 40 years; but now “business as usual” won’t get the job done, according to DCMA. It seems that even DCMA has realized (*finally!*) that DCAA’s irrational obsession on compliance with the audit agency’s interpretation of GAGAS has created a problem that needs to be fixed by methods that are other than “business as usual.”

The audit agency paused for a time and rejiggered its audit procedures and reviews to focus on compliance with GAGAS. As a result, audits now take longer. Fewer audit reports are issued. And the backlog remains.

This is not about the “supply” of DCAA personnel available to support audit request. This is about intentional management decisions made by the senior leadership of the audit agency. Nothing more.

Remember that DCAA made an entirely voluntary management decision to *stop performing these audits*. The audit agency stopped performing them for about two years. The backlog problem was (to a very large extent) intentionally created by leadership decision. And then the new audit procedures only exacerbated the situation. They didn’t fix any existing problems, but they certainly created new problems for all of us to resolve.

DCAA deferred performing “incurred cost proposal” audits and then, when it got around to

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performing them, performed them with new procedures (including multiple levels of review) that seemed intentionally designed to slow the audit process down. Even though audit reports currently are issued with the speed of molasses poured out of a sealed bottle with a small pinprick of an opening, while buried in ice at the North Pole, those audit reports *still lack the necessary quality*

– at least

[according to](#)

the DOD Inspector General.

DCAA is neither fast nor is it good. And that situation is not the result of a lack of auditors. *It is the result of mismanagement.*

There is no imbalance between supply and demand. The demand is largely the same. If anything, it has decreased since DCAA now refuses to perform audits of many contractor cost proposals. And DCAA no longer performs adequacy reviews of contractor CASB Disclosure Statements either. Moreover, many non-DOD agencies that used to use DCAA on a reimbursement basis now no longer choose to do so. So it very much seems to us that demand for DCAA's audit services has (at best) stayed the same, or has even decreased over time.

While demand has stayed flat or trended downwards, the supply of auditors has gone up. So clearly there is no imbalance. That's not the root cause, so put that red herring out of your mind. Instead, grapple with the notion that the existing resources are sufficient to meet the existing demand, when properly managed.

DCAA has adequate resources. The problem is that the agency has mismanaged the resources it has.

Can the situation be fixed? Doubtful. The parties have come a long way down the road they're on, and it will be tough to turn around and head in another direction. DCMA seems to be preparing to handle its mission without the assistance of DCAA. The new Director, Ms. Bales, is going to have to make quick and decisive changes if she is to address the fundamental problems facing her agency.

We have offered recommendations regarding how we would attempt to fix the problems at

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DCAA, were we in charge of the audit agency. We are not going to repeat them here.

But please stop with the notion that there are insufficient auditors to get the work done. There are plenty of auditors. They just need leadership. We hope Ms. Bales will provide it.