

(DCAA Wants) More, More, More!

Written by Nick Sanders

Monday, 10 April 2017 00:00 - Last Updated Saturday, 08 April 2017 21:11

[Testimony](#) this week before the House Armed Services Committee (HASC) Subcommittee on Oversight and Investigations indicated that DCAA has learned precious little over the past decade and continues the management approach proven time and time again to be significantly misguided.

Strong words, perhaps. Let's discuss the basis for our assertion.

As a foundation, let's all remember that DCAA intentionally created for itself a ginormous backlog of unaudited contractor proposals (called "final billing rate proposals" or sometimes "incurred cost proposals") by intentionally, *willfully*, not performing audits on them. The pretext at the time was the audit work that needed to be performed in Southwest Asia as a result of the contractors supporting the Global War on Terror. Indeed, work needed to be done there, but several credible sources have noted that by creating such a backlog, DCAA was also creating a business case for adding more budget and more headcount. They have asserted—and we believe them—that this strategy was the *real* driver behind the management decision to stop performing audits.

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But a couple of things got in the way of that cunning plan. First and foremost was the fact that while DCAA was busy not performing audits, it was revising its interpretation of Generally Accepted Government Auditing Standards (GAGAS)—taking a unique approach that resulted in a dramatic drop in auditor productivity. A huge and unprecedented drop in output that we have documented on this site.

Second, the courts began to enforce the Contract Disputes Act (CDA) statute of limitations (SoL) against the government, finding that if DCAA didn't perform its audits timely, then the government was prevented from asserting a claim against the contractor for improperly billed costs. While that strict interpretation has devolved in the years since its first establishment (thanks to Judge Dyk), DCMA and DOJ trial attorneys are still dealing with the fact that (generally, with many exceptions) the government has six years—*no more*—from the time the contractor submits its annual final billing rate proposal to assert a claim for improperly claimed costs. Given DCAA's ginormous backlog coupled with a dramatic drop in auditor productivity, the government was looking at contractors reaping a potential windfall of improperly claimed costs.

And that's not the only issue. We've documented here the "ripple effects" associated with DCAA's decision to stop performing audits on contractors' final billing rate proposals. For example, DCMA's backlog of contracts awaiting closure has grown. The ability to deobligate excess funds has been hindered, because the contracting officers don't know final contract prices. The ability of prime contractors to smoothly close-out subcontracts has been hindered. DCAA's decision to stop performing audits was, effectively, a monkey-wrench thrown deliberately into the machinations of the defense acquisition system.

People began to become concerned. People such as the Under Secretary of Defense. People

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such as Congress. People whose concern could lead to some changes.

Notably, DCAA management was not among those people. Everything was okey-dokey over at Fort Belvoir. Peachy. Just swell.

To assist DCAA in addressing its management failure, Congress passed a law that prohibited DCAA from performing audits for any non-DoD agency until and unless it reduced its backlog to an “acceptable” number. Somehow, DCAA convinced people that an 18-month backlog was acceptable; we don’t know how that con-job was effectuated. Obviously, any backlog that can’t be performed in the following year should be unacceptable, but somehow we all forgot that obvious fact.

With that statutory prohibition staring it in the face, DCAA got busy. The audit agency got busy “risking-away” audits, claiming assignment completion without performing audits. They got busy deciding contractor proposals were “inadequate” and closing assignments, again without performing audits. These innovative management approaches for not performing audits and claiming assignment completion have been documented on this blog.

Now, back to the April 6, 2017, testimony before the HASC Subcommittee.

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Ms. Anita Bales, DCAA Director, offered [written testimony](#) .

Ms. Bales' testimony is congruent with the assertions we've made here. Let's offer some quotes. (All italics have been added.)

For example:

First, it is important to understand the root cause of the backlog. Specifically, during 2000-2009, defense contract spending increased in support of the Gulf war, but DCAA resources remained the same ... *Because we didn't have sufficient audit staff to perform all the new work, we dedicated our limited resources to high risk defense procurements and deferred incurred cost audits, the only audits that could be postponed without significant risk to the taxpayer or the warfighter.*

Or:

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DCAA's inability to maintain a steady level of staffing has presented a major barrier and hindered our ability to successfully accomplish our mission. To perform and sustain the full complement of contract audits that pose the greatest risk to the government, DCAA needs to have a stable and well-qualified workforce that can deliver on its mission. ... We repeatedly find that these staffing upheavals negatively affect workload projections, delay training plans, and disrupt the professional development pipeline critical for meeting the high risk needs of our customers. For example, based on our trajectory on eliminating the Incurred cost backlog ... we were planning to be fully current by 2018. However, the passage of the 2016 NDAA (Section 893), which prohibited DCAA from receiving reimbursements from non-DoD agencies, necessitated a hiring freeze that interrupted our progress. *Because of that hiring freeze, together with the additional hiring freeze for FY 2017, we are currently reassessing our projections to determine how these events will impact our target dates* [for reducing the backlog of unaudited contractor proposals to an "acceptable" size].

Do you see the implicit threat and business case for adding more budget and auditor headcount? "Give us more funding or we will let the backlog grow back!" Hopefully the HASC Subcommittee staff will have sufficient spine to resist that implied threat.

There was more to Ms. Bales' testimony but, at its essence, her testimony was a plea to be left alone and to be allowed to continue with the agency's current strategies. "It ain't broke and there's no need to fix it" was the essence of her testimony. Which we think is sad, because it's a denial of reality. Plus if it ain't broke, why then does DCAA need more budget and more headcount?

In contrast to Ms. Bales' call for continuing the status quo at a higher budgetary level, the two industry representatives told a story of historic mismanagement and an urgent need for

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innovative approaches to change the status quo.

More on that in Part 2, coming up in a couple of days.^^