

The proximate cause for many of DCAA's audit-related problems are the audits of the LOGCAP (Logistics Civil Augmentation Program) contracts in 2007 and 2008. DCAA showed up late to the party and made up for it by taking a hard line with LOGCAP contractors (primarily KBR but also others), questioning millions (if not hundreds of millions) of costs incurred and also asserting that the majority of those contractors' business systems were inadequate—allegedly leading to fraud, waste, and abuse.

More than a decade later, we still feel the ripples from those stones thrown in the government contracting pond. The Contractor Business Systems oversight regime sprung from that source. The backlog of unaudited contractor final billing rate proposals sprung from that source. DCAA's relative lack of CAS-related audits and post-award (defective pricing) audits sprung from that source. DCAA's "risk-based" audit approach (designed to "risk away" small dollar value audits in favor of larger dollar value audits) sprung from that source. Putting DCMA in charge of reviewing contractor Disclosure Statements sprung from that source.

It all started with LOGCAP contractors and it continues to this day.

The DoD Office of Inspector General (DoD OIG) released an audit report on May 11, 2018 that reminded us of the old days of DCAA LOGCAP audits. In audit report **DODIG-2018-119** , the DoD OIG reported several headline-worthy assertions, including:

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Army Contracting Command and Defense Contract Audit Agency (DCAA) officials did not adequately monitor all 128 LOGCAP IV vouchers submitted from 2015 to 2017 for questionable and potentially unallowable costs

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DoD policy established DCAA prepayment reviews as the sole method of voucher oversight prior to payment; however, prepayment reviews are cursory reviews not sufficient for preventing reimbursement to the contractor for all potentially unallowable costs

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The Army paid all 128 LOGCAP vouchers the LOGCAP contractors submitted from 2015 to 2017, valued at $2.4 billion, with little or no examination of the supporting documentation. We [DoD OIG] identified at least $536 million of the $2.4 billion billed on vouchers that were supported by questionable documentation that warranted further analysis

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We also identified $422,825 in costs that, based on the description of the costs in contractor's accounting data, may not be allowable

Wow. That's a whole lot of assertions, right?

Well, not really. Much like the DCAA assertions from a decade ago, when examined more closely the DoD OIG audit findings are more headline material than anything else. Let's look closer:

1.

Worst case: contractors submitted $2,400,000,000 in costs for reimbursement, of which $536,000,000 "warranted further analysis." Not that the costs were improper or unallowable, just that somebody should have looked harder at them. That's about 22 percent of all costs incurred—a very high number.

2.

When looking at the $536,000,000 value, DoD OIG admits the truth: the value is comprised of 2,531 individual transactions that “did not contain sufficient detail for us to determine how the contractor calculated the costs.”

3.

In fact, DCAA had already reviewed those costs and understood them, even though the DoD OIG auditors did not. The report stated “According to DCAA officials, the contractor did not intend these line items to be literal representations of the costs claimed in the contractor’s voucher. DCAA officials stated that the contractor clustered these line items, and thousands of similar line items in the contractor’s billing support, under one employee identification number. DCAA officials explained that the contractor billed in this manner to reduce the number of files attached to the vouchers. However, the contractor’s presentation of cost data in such a manner lacks transparency and reduces contracting and auditing officials’ ability to determine whether costs are allowable.” So the 2,531 transactions were in fact summaries of thousands upon thousands of other accounting transactions, summarized for ease of reviewing.

4.

As readers likely know, contracts contain billing instructions. Indeed, DCAA has an entire audit program (17390) dedicated to “contractor compliance with billing instructions.” Had the contracting activity wanted the contractors to provide additional detail for certain contractor costs, it had ample opportunity to do so. If those contractors were now to be asked to comply with modified billing instructions, in our view those contractors would be entitled to an equitable adjustment of the contract price (including fee) for doing so.

5.

But modifying the contracts is *exactly* what the DoD OIG recommended be done. The report stated, “To ensure that future vouchers include supporting documentation that accurately represents the nature of the claimed cost, ACC-RI should modify the LOGCAP IV contract to require contractors to submit transaction-level accounting data that accurately represents the costs billed on vouchers in iRAPT.”

6.

With respect to the $422,825 in potentially unallowable costs, the report stated, “The Defense Contract Audit Agency Director … stated that the Defense Contract Audit Agency did not find any significant unallowable costs during its review of the $422,825 in costs we identified as potentially unallowable.”

Thus, much like the DCAA audit reports and testimony of a decade ago, the DoD OIG audit report is full of attention-grabbing headlines, but not much else.

Left unstated in the report is the fact that these were all *interim payment vouchers*. In other words, they were not final payments; they were interim payments and subject to subsequent review. In fact, in addition to the 17390 audit mentioned above, DCAA has the 10100 (audit of incurred costs) and the 10180 (Iraq direct cost testing) and the 11015 (testing of paid vouchers) audit programs available to be used on these contractor vouchers.

The DoD OIG didn't mention the additional controls available to the contracting officer and contracting activity, possibly because doing so would have detracted from the headline-worthiness of the findings.

It feels like *déjà vu* all over again.