



## **DCAA Changes**

The times they are a changing. This 1970's classic is apropos because oversight of government contracts is changing, in particular audit oversight.

Most of you reading this article have had some interface with the Defense Contract Audit Agency (DCAA). I am sure that your experiences have ranged from mildly annoying to downright disastrous.

Now the agency you know and love is facing a crisis of its own. DCAA has been scrutinized and at times vilified by various members of congress and the GAO. The major criticisms leveled include assertions that

- Field auditors were not given enough time and resources to do a thorough audit and
- The agency has lost some of its independence because it caved into influences from the procurement activity and bullying by major government contractors.

The purpose of this article is not to defend or crucify the audit agency. Instead the intent is to provide information and actions that contractors can take to react to the times that are a changing.

## ***The Bad News***

1. If you are visited by DCAA you can expect a very thorough audit. The auditor will be doing very detailed testing to be absolutely certain that they don't miss any unallowable cost, accounting system or internal control deficiencies.

2. You will be interfacing with auditors with less experience. The agency has hired 500 new auditors and expects to hire an additional 1,000 more by fiscal 2015, a 37 percent staffing increase.

3. You may be audited by someone other than DCAA. DCAA is planning to shed several low-priority services and place more emphasis on high-risk contracts.

- DCASMA will now be reviewing all DOD Fixed price proposals from \$700K to \$10M and cost type proposals from \$10M and \$100M.
- Increasing backlogs and limited resources at the Defense Contract Audit Agency have caused DOE and other non-defense agencies to seek contract audits elsewhere.

4. It will take longer to get a proposal evaluations completed. In fiscal 2008, the average time to complete a contractor pricing review was 28 days, compared with 72 days in fiscal 2010.

5. Your incurred cost submissions may languish for a protracted period of time. DCAA had put audits of contractor incurred cost submissions and final indirect cost rate proposals on the back-burner, choosing instead to focus on more "high risk" areas such as very large contractor cost proposals in excess of certain dollar thresholds.

6. Mistrust or at least critical skepticism may be the name of the game. We have been basically on the trust system for years,' said an auditor who attended a recent Pentagon conference. 'It did not work on Wall Street and it is not working for federal contracts,' said the two-decade veteran of DCAA.

7. Audit positions taken by field auditors will be scrutinized very carefully by supervisors and Branch Managers.



### ***Managing the Changing Times.***

1. Preparing fully supported proposals will expedite the process.

- An acceptable proposal must detail cost by cost element and provide a **narrative** describing the basis for each of the proposed cost elements.
- The better the documentation, the easier the audit.

2. Prepare incurred cost submissions as soon as possible after the end of the fiscal year.

- Get DCAA to tell you when your incurred cost audit will be started. Advise the ACO if audit cannot be started in the current year.
- Request the ACO to modify your contracts to eliminate any requirement to withhold any amounts held back pending completion of the audits.
- Revisit your process for retaining records and supporting documentation. It is probable that you will need to retain records for many years after the completion of your fiscal year
- Document all sensitive issues. A write up is better than relying on corporate memory.

3. Be the squeaky wheel with both DCAA and procurement

- Send all submissions and meaningful communications to both the ACO and AUDIT.
- Get to know both the DCAA supervisory auditor and the branch manager. Dialogue on issues can blunt the distrust factor.
- Request expedited review of your submissions especially if your business character is changing.
- Update billing and bidding rates as soon as necessary to insure good cash flow.

4. Communicate, communicate, communicate. Insure that your local auditor complies with DCAA policy on in this area. DCAA policy requires effective communication throughout the audit process. It is viewed as an essential part of performing a generally accepted government auditing standard (GAGAS) compliant audit.

- Entrance conferences and exit conferences should rarely be skipped.
- A second exit may be necessary if audit positions are altered during the review cycle. Insure that a process is in place to inform you of these changes to audit findings review.
- Contractors should document results of exit and send copy to DCAA for their concurrence

### **Biographical Information**

John Sack was the DCAA Nashville Branch Manager before retiring in CY2009. He spent 42+ years with DCAA auditing contractors in New Jersey, New York, Virginia, North Carolina, Kentucky and Tennessee. He has had experience with all types of audits including major proposals, equitable adjustment claims, extraordinary relief claims, forward pricing rates forecasts and internal control reviews.

John is available to assist government contractors in the preparation of proposals, claims and incurred cost submissions. John also provides advice on sensitive contract areas including CAS non compliances, FAR unallowable costs and pension issues.

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