

Recommendation 9: Permit DCAA to use IPAs to manage resources to meet time limits.

Problem

DCAA cannot eliminate its current backlog of unaudited final indirect cost rate proposals (i.e., incurred cost audits) while providing timely financial oversight and advisory services to contracting officers. DCAA needs additional resources to get and stay current with its oversight responsibilities.

Background

DCAA has reduced the backlog of incurred cost audits from more than 20,000 to around 4,500 but still has a sizeable number of current incurred cost audits in its inventory.¹ According to a recent GAO report, DCAA possesses nearly 10,000 unaudited final indirect cost rate proposals that are not currently included in its backlog, many of which will be subject to an audit in accordance with DCAA's risk assessment approach.² It currently takes DCAA an average of 747 days to begin its work on a final indirect cost rate proposal once it is received.³

Findings

GAO concluded in this report that “the primary reason for the delay is due to the availability of DCAA staff to begin the audit work.”⁴ Because DCAA lacks sufficient capacity to perform the current needs of DoD contracting officers and eliminate its backlog of unaudited final indirect cost rate proposals, the time it is taking for DCAA to start its nonbacklogged incurred cost audits is growing.

Due to the backlog and previous legislation that prohibited DCAA's provision of audit services to nondefense agencies,⁵ NASA now allows its contracting officers to use IPAs to conduct incurred cost audits as well as other financial services.⁶

Conclusions

DCAA should use IPAs to provide timely audit and advisory services in accordance with statutory time limits. This approach will assist DCAA in eliminating its final indirect cost rate proposal backlog and provide better coverage and more responsiveness in other audits and advisory services. The contracting community will benefit from increased use of IPAs by DCAA to perform oversight functions. Timely performance of necessary risk management activities allows oversight professionals and contracting officers to gain insights into current contractor operations. This insight facilitates faster corrective actions (if necessary), which, in turn, reduces risks of noncompliance and DoD's oversight burden.

¹ Defense Contract Audit Agency, *Report to Congress on FY 2016 Activities: Defense Contract Audit Agency*, 9, accessed on October 30, 2017, http://www.dcaa.mil/Content/Documents/DCAA_FY2016_Report_to_Congress.pdf.

² GAO, *Federal Contracting: Additional Management Attention and Action Needed to Close Contracts and Reduce Audit Backlog*, GAO-17-738, 30, accessed November 2, 2017, <http://www.gao.gov/assets/690/687497.pdf>.

³ *Ibid*, 27.

⁴ *Ibid*, 32.

⁵ FY 2016 NDAA, Pub. L. No. 114-92, § 893, 129 Stat. 952 (2015).

⁶ “Procurement Notice PN 15-11: Revision to NFS 1815.404-2: Use of Contractor to Perform Contract Audit Services, NFS Case 2015-N020,” dated December 16, 2015, National Aeronautics and Space Administration, accessed November 2, 2017, <https://www.hq.nasa.gov/office/procurement/regs/pn15-11.htm>.

DCAA is responsible for managing its oversight workload and will need to leverage IPAs to become and remain current relative to established time limits. IPAs and other professional services firms are accustomed to performing their work under time limits, in accordance with professional standards, and delivering useful information to their customers. Once DCAA eliminates its backlog of oversight responsibilities it is possible DCAA will no longer need to leverage IPAs if DCAA is able to embrace a more robust risk assessment process, adopt commercial engagement management and materiality approaches, and focus on the contracting officer as its customer.

Contracting officers should have the authority to request from DCAA the services of an IPA or other qualified professional services firm if DCAA cannot accommodate contracting officers' needs.

The DCAA budget request should include increased appropriated funding for DCAA to contract with IPAs. To address the backlog of work and provide timely assistance to contracting officers and the acquisition team, this appropriation must be in addition to DCAA's current budget. Decreases to DCAA's budget to use IPA's will not address the backlog and timeliness issues facing the acquisition system. Funding should be made available each year for a 5-year period beginning with FY 2019. Extension of this initial period should be subject to DCAA justification.

Implementation

Legislative Branch

- Provide appropriated funds beyond DCAAs current budget, so DCAA can contract with IPAs to address the backlog of work and provide timely assistance to contracting officers and the acquisition team.

Executive Branch

- Modify DoDD 5105.36 to enable use of IPAs (a) to provide timely audit and advisory services in accordance with statutory time limits and (b) to become and remain current relative to established time limits.

Implications for Other Agencies

- There are no cross-agency implications for this recommendation.

- Add words to the effect of the following to DoDD 5105.36:

Establish and maintain indefinite delivery, indefinite quantity contracts with qualified Independent Public Accounting (IPA) firms. DCAA will use IPAs to meet statutory time limits for contract audit and oversight services.

(1) IDIQ contracts will require that IPAs:

(a) Make work papers available to DCAA and GAO upon request.

(b) Be responsible for their own peer reviews. Failure to pass a peer review may subject the IPA to a default termination of its contract.

(2) As part of administering IPA contracts, DCAA will:

(a) Maintain copies of all accepted work products from IPAs and other professional services firms (whether retained by the agencies or contractors) to maintain a complete oversight record for each contractor.

(b) Ensure the end-user of deliverables (e.g., administrative contracting officer) is named the contracting officer technical representative (COTR) in all task order awards; responsible for accepting the work of IPAs.

(c) Honor contracting officer requests to use IPAs, but remain responsible for determining the nature and scope of work to be performed with each respective contracting officer.

(d) Honor contractor's request to retain IPAs (where the contract privity is between the contractor and IPA) as an allowable expense if:

a. DCAA has not been able to complete the work within timeframes needed by contracting officers.

b. DCAA has not be able to issue a task order to complete the work.