

Recommendation 7: Provide flexibility to contracting officers and auditors to use audit and advisory services when appropriate.

Problem

Contracting officers too often request a specific service from either DCAA or DCMA without consulting internal technical specialists about the best way to meet their needs. In addition, DCAA auditors and DCMA technical specialists perform their most accustomed services without adapting their services to contracting officers' specific situations and needs. Contracting officers currently use the term *audit* in a way that conflates audit and advisory activities in their functional requests to DCAA for a wide-ranging set of technical activities.

Background

Contracting officers require input from outside advisors to make sound business decisions in the public best interest. Contracting officers express they do not believe auditors can or will tailor their services to meet contracting officer needs, especially in the preaward area relating to cost and pricing services.¹ At one stakeholder meeting, the Section 809 Panel asked a group of acquisition professionals about the specific insights DCAA provides contracting officers, and whether an *audit* is required to obtain such information. Several stakeholders stated trained and experienced contracting officers should be able to decide whether a proposed cost is fair and reasonable. Contracting officers feel they must request an audit anyway, however, because of certain dollar thresholds and to avoid criticism later.² Audits inappropriately requested by contracting officers or provided by DCAA delay the acquisition process and decrease their utility. It is imperative for the appropriate engagement (audit/advisory) to be performed by the most qualified compliance professional with the required expertise and skills to ensure contracting officer needs are met.

Findings

Today, contract auditors perform an attestation examination for virtually all contract audit services provided.³ These attestation examinations "consist of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on (or in conformity with) the criteria in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria."⁴ This type of engagement can be too restrictive or irrelevant for many contract cost or price evaluation circumstances for which contracting officers look to auditors for advice, guidance, and recommendations on how to proceed.

Using an attestation examination engagement to help contracting officers develop a negotiation position illustrates this point. In an attestation examination engagement, the auditor may only attest to whether a contractor's cost estimates comply with established audit criteria (e.g., FAR and any contractor cost assumptions within the proposal). In this type of engagement, the auditor many times does not perform the work required to provide needed advice and guidance to the contracting officer

¹ Data collection interviews conducted from August – November 2017 by Section 809 Panel Team 4: Barriers to Entry.

² Ibid.

³ "Services," Defense Contract Audit Agency, accessed November 17, 2017, <http://www.dcaa.mil/Home/Services?title=Services>.

⁴ GAO, *Government Auditing Standards, 2011 Revision*, GAO-12-331G, 16, accessed November 17, 2017, <http://www.gao.gov/assets/590/587281.pdf>.

beyond a statement indicating whether a contractor's proposed costs are compliant with established criteria (e.g., determining the root cause of any noncompliance incidents). This practice falls short of what contracting officers require to develop a negotiation position. Contracting officers need to know whether costs are compliant, and if not, then they need advice on how best to proceed based on audit findings.

Conclusions

Subrecommendation 7a: Prior to requesting field pricing/audit assistance, contracting officers should consider other available internal resources and tailor their request for assistance to the maximum extent possible.

Contracting officers should use internal resources to understand if, and specifically where, field pricing support is required. With the help of internal resources, contracting officer requests for field pricing assistance should be tailored to the maximum extent possible—requesting only what is needed and nothing more. Over-reliance on outside support, and unnecessarily broad requests, overtax the compliance workforce and add bureaucracy to the already slow acquisition process.

Requests for field pricing support, by default, become requests to DCAA for proposal audits. A group of contracting officers told the Section 809 Panel they believe many of the questions DCAA asked later in the audit process are the same things a contracting officer could have asked earlier on. These contracting officers see value in DCAA's services, but not at the current expense of how long it takes in many situations.⁵ At a separate meeting, another stakeholder told the Section 809 Panel that "DCAA is not in the fair and reasonable business," implying that other resources may be better suited for proposal support.⁶ By dedicating resources to build pricing expertise, DoD could cultivate a growing culture of self-reliance and attempt to rebuild organic pricing capability at the agency level that was lost during the 1990 DoD downsizing, rather than automatically request DCAA support.

There is precedent for this model. After Congress prohibited DCAA from performing other agency audits, non-DoD agencies relying on DCAA for contract audit and oversight were forced to look elsewhere.⁷ As one of the biggest non-DoD users of cost-type contracts, NASA was affected greatly by this congressional prohibition, and responded by creating a DCAA-like internal organization within NASA. After outsourcing contract audit support for 40 years, NASA was able to identify efficiencies after taking ownership of all responsibilities, and NASA officials consider the transition to internal auditing a success.⁸

Previously, when NASA relied on DCAA for audit proposal support, the agency lacked the ability to dictate what DCAA reviewed and how. Today, NASA contracting officers tailor proposal analysis requests to their internal support. NASA has invested heavily in internal cost and price analysis capabilities by developing cadres of subject matter experts, acknowledging that audits may not always be needed for purposes of proposed cost and price evaluation. One NASA official told the Section 809

⁵ Data collection interviews conducted from August – November 2017 by Section 809 Panel Team 4: Barriers to Entry.

⁶ Ibid.

⁷ FY 2016 NDAA, Pub. L. No. 114-92, § 893, 129 Stat. 952 (2015).

⁸ Data collection interviews with NASA officials conducted August 28, 2017 by Section 809 Panel Team 4: Barriers to Entry.

Panel this approach has changed the culture from defaulting to calling DCAA first, to asking “what do I have within NASA to do this?” As a result of the efficiencies and insight gained from taking back ownership of proposal audits from DCAA, NASA has no intent to go back to DCAA.⁹

Subrecommendation 7b: Define the term audit.

The term audit is not defined in the FAR, contributing to confusion surrounding contracting officers’ precise needs when requesting support services. Certain elements of FAR require an audit when other forms of reviews may be more appropriate to meet contracting officer needs and responsibilities. The level of assurance contracting officers need should dictate the service required, not the other way around. The terms audit and audits should be defined through DoDD 5105.36, which will filter into FAR Part 2 and DCAM to bring consistency to a term that is often over and inappropriately used.

Definition of audit:

A systematic examination, performed in accordance with Generally Accepted Government Auditing Standards (GAGAS), for the purpose of rendering professional opinions and conclusions that provide assurance to one or more third-parties regarding the reasonableness of an individual’s or organization’s representations or performance relative to established, objective standards or criteria..

All instances in which the FAR currently requires an audit should be evaluated against the definition set forth above and incorporated into FAR Part 2. Such an evaluation would produce three possible outcomes:

- Keep the word audit.
- Supplement the word audit with the phrase advisory services (e.g., contracting officers will request an audit or advisory services).
- Supplant audit with advisory services.

The net result of this process would not be to preclude audits. Rather, it would provide flexibility, so DCAA can provide contracting officers the appropriate service for the level of assurance required. For example, FAR 42.101 directs contract auditors to perform “analysis of the contractor’s financial and accounting records or other related data.”¹⁰ The current FAR language provides for a variety of different services depending on the circumstances—not solely a GAGAS audit.

Subrecommendation 7c: DCAA should use the full range of audit and nonaudit services available.

In almost every situation for which DCAA provides an audit level of assurance to contracting officers, DCAA auditors perform an attestation examination engagement regardless of the contracting officer’s needs.¹¹ Contract auditors should perform services other than attestation engagement based on the requirements of contracting officers as appropriate. If the audit objectives overlap with different types

⁹ NASA officials, interview conducted August 28, 2017 by Section 809 Panel Team 4: Barriers to Entry.

¹⁰ Contract audit responsibilities, FAR 42.101.

¹¹ “Services,” Defense Contract Audit Agency, accessed November 17, 2017, <http://www.dcaa.mil/Home/Services?title=Services>.

of audit services, contract auditors should evaluate the needs of contracting officers to determine which engagement type is best suited. DCAA should encourage its contract auditors to review the needs of contracting officers to determine the audit or advisory service most appropriate to the objectives of contracting officers.

According to GAGAS, the types of engagements auditors may use include those listed in Table 2-3 below:

Table 2-3. Types of GAGAS Audits and Attestation Engagements¹²

Service Type	Description
Financial Audits	Financial audits provide an independent assessment of whether an entity's reported financial information (e.g., financial condition, results, and use of resources) is presented fairly in accordance with recognized criteria. Financial audits performed in accordance with GAGAS include financial statement audits and other related financial audits.
Attestation Examination Engagement	Attestation examination engagement consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on (or in conformity with) the criteria in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria.
Attestation Review Engagement	Consists of sufficient testing to express a conclusion about whether any information came to the auditors' attention on the basis of the work performed that indicates the subject matter is not based on (or not in conformity with) the criteria or the assertion is not presented (or not fairly stated) in all material respects based on the criteria. Auditors should not perform review-level work for reporting on internal control or compliance with provisions of laws and regulations.
Attestation Agreed-Upon Procedures	Agreed-upon procedures consist of auditors performing specific procedures on the subject matter and issuing a report of findings based on the agreed-upon procedures. In an agreed-upon procedures engagement, the auditor does not express an opinion or conclusion, but only reports on agreed-upon procedures in the form of procedures and findings related to the specific procedures applied.
Performance Audits	Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The term <i>program</i> is used in GAGAS to include government entities, organizations, programs, activities, and functions.

¹² GAO, *Government Auditing Standards, 2011 Revision*, GAO-12-331G, 14-17, accessed November 17, 2017, <http://www.gao.gov/assets/590/587281.pdf>.

Subrecommendation 7d: Direct a review of the roles of DCAA and DCMA to ensure appropriate alignment and eliminate redundancies.

A group of contracting officers told Section 809 Panel staff “the distinction between DCMA and DCAA is not always clear—they sometimes look at the same thing.”¹³ One contracting officer suggested there needs to be more collaboration and communication between DCAA and DCMA and that “If you align the priorities, the agencies can work together to achieve overarching desired results faster.”¹⁴

Given the continued scrutiny around audit requirements, it is critical that DoD use its oversight resources as efficiently as possible. The professional skills of auditors should not be inappropriately used to perform nonaudit work if it can be effectively performed in other ways or by other organizations. For example, the DCMA Cost and Pricing Center and DCMA’s Integrated Cost Analysis Teams (ICATs) are already able to assist with business and technical proposal pricing support for the contracting officer and acquisition team.¹⁵ It is possible that some functions performed in DCAA could be accomplished by the DCMA Pricing Center to include the ICATs.

The Chief Management Officer (CMO) should direct a review of the work performed by DCAA and DCMA to identify services that are redundant between the two agencies and then to take targeted action to improve contract audit and advisory services. The connection between audit work and nonaudit work has benefits associated with the knowledge gained from each and that knowledge supports some of the other process controls. Real opportunities exist, however, to consider how the work of DCAA and DCMA could be more complementary and avoid the current inclination to use audits to solve every problem. In support of moving forward with IPAs and driving down DCAA work backlog, this review by DoD should be a priority and completed within 180 days, but either way prior to execution of the IPA contracts as recommended in Recommendation 9.

Implementation

Legislative Branch

- Require in statute that DoD CMO will direct USD(A&S) and the Comptroller to conduct a joint review of the DCAA and DCMA contract compliance mission requirements for the purpose of determining if there are functions performed in either DCAA or DCMA that would be more appropriately aligned in the other Agency. The review shall be complete within 180 days of assignment and prior to execution of the IPA contracts as recommended in Recommendation 9. The review will include appropriate statutory or regulatory language as needed to execute any recommendations emerging from the review.

¹³ Data collection interviews conducted from August – November 2017 by Section 809 Panel Team 4: Barriers to Entry.

¹⁴ Ibid.

¹⁵ DoD Memorandum from USD(AT&L), *Integrated Cost Analysis Team Support to Major Proposals*, accessed November 17, 2017, https://www.acq.osd.mil/dpap/policy/policyvault/D_DP_Signed_ICAT_Memo_Oct_2014.pdf.

Executive Branch

- Amend FAR 15.404-2(a)(1) and PGI 215.404-2 to ensure contracting officers fully understand and clarify their needs prior to requesting outside support.
- Define the term *audit* in DoDD 5105.36, FAR Part 2, and the DCAM. Use the definition to determine if an *audit* is the appropriate activity in all instances where FAR and DFARS currently require an *audit*.
- Modify DoDD 5105.36 to encourage DCAA to consider different types of audit engagements where and when appropriate.

Implications for Other Agencies

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