

GAO: DCAA built a valuable bench of independent public accountants, now what?

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The Government Accountability Office ("GAO") released a report (<https://bit.ly/45UihY8>) on the Defense Contract Audit Agency's ("DCAA") past and future use of private-sector, independent public accountants to augment its auditor workforce.

The initiative — approved under Section 803 of the Fiscal Year ("FY") 2018 National Defense Authorization Act ("NDAA") — began in fiscal year 2020 and was originally envisioned by Congress as a tool to reduce DCAA's backlog of incurred cost audits.

The independent public accountant program allows the Defense Contract Audit Agency to allocate more of its internal resources to complex and high-risk audit activities.

But, as GAO noted, DCAA had largely eliminated its audit backlog by the end of FY 2018, primarily through its reliance on risk-based sampling methodology, which reduced the number of audits DCAA was required to complete.

Still, as the report notes, the independent public accountant program allows DCAA to allocate more of its internal resources to complex and high-risk audit activities.

When set against the backdrop of recent workforce reductions (<https://bit.ly/4jR6FZa>) and a major reorganization (<https://bit.ly/4kLITiG>) at the agency, which are both likely to impact DCAA's audit resources, the program could become a critical tool to prevent future audit backlogs and contractor overpayments.

This article discusses several key findings in the report, including GAO's assessment of: (1) the effect of the independent public accountant program on DCAA's ability to eliminate its incurred cost backlog and to conduct other

audits; (2) DCAA's ability to supervise independent public accountants and evaluate their performance; and (3) the extent to which DCAA has adequately planned for its future use of independent public accountants.

DCAA's independent public accountant program freed agency resources for high-priority audits, but was not a major factor in reducing its audit backlog

DCAA is the primary Government audit agency for most federal contractors (excluding educational institutions and non-profits) that do business with DOD. Incurred cost audits are a fundamental component of the agency's audit responsibilities.

The FAR requires contractors to submit incurred cost proposals that include information about all of their flexibly-priced contracts in a fiscal year. DCAA audits these proposals to determine whether the costs the contractor claimed during the year are allowable and allocable under applicable law and contract terms.

These audits are considered crucial to the Federal procurement system because they provide contracting officers with the necessary information to recover overpayments.

For years, DCAA struggled to conduct incurred cost audits in a timely manner, which led to a backlog that put funds at risk and limited DCAAs ability to conduct other types of audits. Congress enacted two pieces of legislation to address this problem.

First, Section 893 of the FY 2016 NDAA (<https://bit.ly/44i5MnV>) prohibited DCAA from taking on new incurred cost audits for civilian agencies until DCAA met certain milestones in clearing its existing backlog.

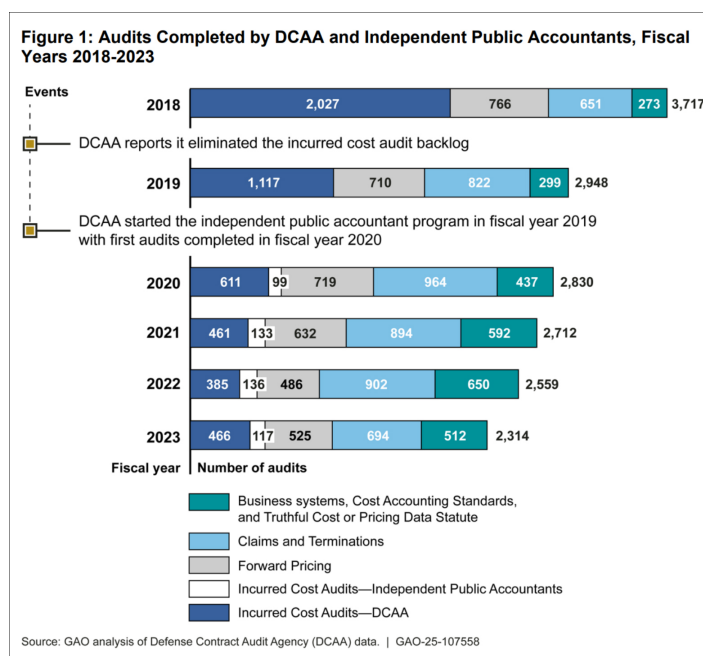
Second, as mentioned above, Section 803 of the FY 2018 NDAA (<https://bit.ly/408XVXp>) directed DCAA to contract with qualified independent public accountants to support DOD's need for timely and effective incurred cost audits.

As the GAO report explains, DCAA effectively eliminated its backlog of incurred cost audits by the end of fiscal year 2018, largely before it began to utilize independent public

accountants to augment agency audit capacity. DCAA attributed its reduction in the backlog to new risk-based sampling techniques that reduced the overall number of audits required.

However, as GAO explained, that does not mean that the work to recruit and qualify independent public accountants was valueless. DCAA's subsequent use of independent public accountants from fiscal years 2020 to 2023 allowed the agency to allocate more resources to complex, high-risk audits (e.g., forward pricing and business system audits at major contractor segments).

Independent public accountants completed 20% of the total incurred cost audits, thereby enabling DCAA auditors to focus on those other critical tasks. See Figure 1 below.



Thus, despite an overall reduction in DCAA's auditor workforce during the period — DCAA's workforce decreased from 4,148 in FY 2018 to 3,504 in FY 2023 — the agency managed to meet its audit obligations thanks in part to the work of independent public accountants.

DOD established effective processes for qualifying and supervising independent public accountants

The FY 18 NDAA established minimum requirements for independent public accountants to ensure, among other things, that they were technically competent, free from conflicts of interest, and capable of safeguarding nonpublic contractor data. According to GAO's analysis, DOD established effective processes for qualifying and supervising independent public accountants through collaboration between DCAA and the Defense Logistics Agency ("DLA").

DLA was chosen to serve as the contracting organization for this program since DCAA lacks its own contracting authority. As part of this arrangement, DLA solicits quotes and awards task orders, ensuring that each awardee meets the qualifications set by the FY 18 NDAA.

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DCAA, in its role as the program office, evaluated vendor technical quotes to ensure that offerors were qualified to perform audits in accordance with the required standards. Of the 50 quotes submitted for the 10 task orders that GAO reviewed, nine were disqualified from further consideration once DCAA reviewed the accountants' sample work product and determined it inadequate under Generally Accepted Government Auditing Standards ("GAGAS").

Once vendors were selected, DCAA had primary responsibility for overseeing the independent accountants' performance and assigned agency personnel to serve as contracting officer's representatives ("COR") for this purpose.

GAO's review of DCAA's COR supervision was largely positive. For the 57 incurred cost audits performed by independent public accountants in GAO's 10 sample task orders, the COR documentation indicates that independent public accountants met most performance goals included in DCAA's quality assurance surveillance plans.

However, we note that earlier this year the DOD Inspector General ("DOD IG") raised concerns about the completeness and quality of some independent public accountants' work product. DCAA largely disagreed with these findings, and GAO's report suggests that overall DOD has adequate processes in place to qualify and supervise accountants participating in the program.

DCAA has not established a formal plan for the future of the independent public auditor program

Finally, GAO found that DCAA has not yet formally planned for the future use of independent public accountants, despite changes in its workload and auditor workforce. DCAA initially outlined a phased approach in its October 2018 report to Congress, intending to gradually increase the number of audits conducted by independent public accountants.

Under this preliminary plan, the number of incurred cost audits conducted by independent public accountants was to increase from 100 per year in fiscal years 2019 and 2020 to 200 per year in fiscal years 2021 through 2025. However, DCAA's actual audit volume under the program has fallen short of this plan.

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Factors such as revised criteria for audit assignments and updates to DCAA's risk-based sampling methodology have reduced the number of audits available to independent public accountants. Consequently, DCAA's anticipated increase in audits and auditable dollar value has not been realized.

According to the report, DCAA officials briefly considered increasing the use of independent public accountants, but

ultimately decided to maintain current levels to preserve the knowledge base within regional field offices. This is despite a continued decrease in DCAA's workforce since the COVID-19 pandemic.

GAO's conclusions and recommendations

As GAO noted, it is difficult to compare the value of the work performed by independent public accountants to the value of the audits performed by DCAA auditors due to differences in the complexity and scope of the audits.

DCAA deliberately assigned less complex audits to independent public accountants, and these audits were therefore less costly on average than those conducted by DCAA auditors. However, GAO's analysis suggests that the audits performed by independent auditors allow the agency to allocate resources to its other critical audit priorities.

The report recommends that the Secretary of Defense ensure that DCAA conducts a formal assessment of its future use of independent public accountants and communicates its plans to Congress. This would provide Congress with the necessary information to conduct oversight and make informed decisions regarding DCAA's auditing strategy in light of evolving factors since the program's inception. The Department of Defense concurred with this recommendation and committed to presenting a plan to Congress by April 30, 2026.

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