



# Defense Contract Audit Agency

## NCMA Fall Training

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# Director's Philosophy

- Quality audits must not be sacrificed for any reason
- Continuous Process Improvement
- Efficient & effective accomplishment of DCAA mission
  - ➔ Audits to ensure that the Government pays a fair and reasonable price for goods and services
- Back to Basics
  - ➔ Need to understand what we are auditing
  - ➔ Face-to-face communication with the contractor employees
  - ➔ Ask questions, maintain auditor skepticism
  - ➔ Develop sound conclusions



# DCAA Mission

## DCAA Charter - DoD Directive 5105.36

### **Mission – Defense Contract Audit Agency shall:**

1. Perform all necessary contract audits for the Department of Defense and provide accounting and financial advisory services regarding contracts and subcontracts to all Department of Defense components responsible for procurement and contract administration. These services will be provided in connection with negotiation, administration, and settlement of contracts and subcontracts.
2. Provide contract audit service to other Government Agencies, as appropriate.



# DCAA FY 2008 Audit Results By Audit Area

Audit Area	Number	Dollars Audited (in Billions)	Exception Dollars (in Billions)	% with Findings
1. Incurred Cost	13,777	\$137.9	\$0.8	44%
2. Forward Pricing	8,113	\$313.1	\$16.0	50%
3. Special Audits	6,059	\$7.2	\$0.7	32%
4. Other	2,403	\$42.7	\$0.4	20%
Total	30,352	\$500.9	\$17.9	42%

- 1. Incurred Cost.** Includes audits of historical costs, internal control systems, and final contract closings.
- 2. Forward Pricing.** Includes audits of price proposals, estimating systems, and forward pricing rate agreements.
- 3. Special Audits.** Includes audits of terminations proposals, other claims, progress payments, financial capability, and earned value management systems.
- 4. Other.** Includes Cost Accounting Standards, operations audits, and Truth-in-Negotiations (Defective Pricing Audits).



# Summary of DCAA Audit Results

Effective  
Auditing  
Produces  
Results

**Net Savings**  
(in Billions)



<b>Fiscal Year</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Sustention Rate</b>	56.4%	63.5%	62.9%	63.6%
<b>Return on Investment</b>	\$6.2 to 1	\$5.2 to 1	\$5.3 to 1	\$7.0 to 1



# Staffing

	FY 2005	FY 2006	FY 2007	FY 2008
<b>Total (End Strength)</b>	<b>4,142</b>	<b>4,056</b>	<b>4,124</b>	<b>4,216</b>
<b>Auditors</b>	<b>86%</b>	<b>86%</b>	<b>86%</b>	<b>86%</b>
<b>College Graduate (Auditors)</b>	<b>99%</b>	<b>99%</b>	<b>99%</b>	<b>99%</b>
<b>Advanced Degrees (Auditors)</b>	<b>24%</b>	<b>25%</b>	<b>26%</b>	<b>26%</b>
<b>CPAs (Auditors)</b>	<b>37%</b>	<b>37%</b>	<b>35%</b>	<b>33%</b>

**DCAA is the largest audit organization**



## DCAA Initiatives/Current Issues

- Access to Records Due to Contractor Delays
- Integrated Product Teams
- Audit Opinions on Internal Control Systems
- Auditing Parts of a Proposal
- Forward Pricing Due Dates
- Audits of Subcontract Forward Pricing Proposals
- Financial Liaison Services
- Source Selection Evaluation Boards (SSEBs)
- Unsatisfactory Conditions/DCAA Form 2000



## Access to Records Due to Contractor Delays MRD 08-PAS-042(R), dated December 19, 2008

- Quality and effective audits require timely access to records.
- Documentation supporting the contractor's assertion should be readily available and provided upon request.
- Additional time for extenuating circumstances may be allowed (e.g., data is stored offsite or is voluminous).
- This clarifying guidance is intended to begin the denial of access to records process as soon as it is apparent the contractor is delaying access to records and eliminate the "slow roll" experienced at some locations.



# Access to Records Due to Contractor Delays

## MRD 08-PAS-042(R), dated December 19, 2008

- Supporting documentation includes access to personnel as well as documentation – obtain support directly from the person responsible for the information.
- Contractors use of liaisons should not delay or inhibit auditor's access to contractor personnel.
- If the contractor does not provide support in a timely manner, the auditor should:
  - ➔ Follow the procedures for denial of access;
  - ➔ Suspend or withhold of any unsupported costs billed to the Government; and
  - ➔ Question the unsupported costs.
- ***Contracting Officer support is crucial to resolving access to records issues in a timely manner.***



## Audit Services in Support of Integrated Product Teams (IPTs)

MRD 08 PAS-026(R), dated August 11, 2008

- To ensure independence, DCAA ceased participation in IPTs on August 8, 2008.
- DCAA will continue to provide audit services, as necessary, to assist the CO in determining a fair and reasonable price. Three guidelines that must be met:
  - ➔ CO requests the audit services;
  - ➔ The audit covers a “management approved” proposal or part of a proposal, and not a draft proposal; and
  - ➔ An audit report is issued reflecting an independent opinion that is not influenced by the contractor or Government officials.



# DCAA Audit Services in Support of Integrated Product Teams (IPTs)

MRD 08 PAS-026(R), dated August 11, 2008

- DCAA will continue to provide support at negotiations to explain reported audit results, especially for complex proposals with significant audit issues.
- DCAA will not provide input to contractors on such items as draft proposals, draft policies and procedures, or draft CAS disclosure statements.
- DCAA will report significant deficiencies discovered during the audit even when the contractor corrects some of the deficiencies during the audit. DCAA must issue an independent audit opinion reflecting all significant results of the audit.



# Audit Opinions on Internal Control Systems

MRD 08-PAS-043(R), dated December 19, 2008

- Clarifies a significant deficiency/material weakness as:
  - ➔ Contractor failure to accomplish any control objective tested for in DCAA's internal control audits
  - ➔ Not necessary to demonstrate actual cost questioned to report a significant deficiency/material weakness
- Eliminated inadequate-in-part opinions.
- Eliminated the reporting of suggestions to improve.
  - ➔ Reporting suggestions to improve the system has caused confusion in the past.



# Performing Audits of Part(s) of a Proposal

## MRD 09-PSP-005(R), dated April 9, 2009

- Audits of Part(s) of a Proposal may be performed when:
  - ➔ Requested by the contracting officer;
  - ➔ Covers a “management approved” proposal or part(s) of a proposal; and
  - ➔ An audit report is issued.
- When based on the risk assessment the auditor disagrees on audit coverage with the requestor, the following steps should be taken:
  - ➔ Discuss with the contracting officer;
  - ➔ Document in the acknowledgement letter and initiate the audit while elevating to region for coordination with buying Command; and
  - ➔ If not resolved by the end of the audit, document in the subject of audit.
- *While auditors may not participate in an IPT, they will still support the contracting officer involved in an IPT by auditing proposals or part(s) of a proposal that meet the requirements above.*



# Audit Alert on Forward Pricing Due Dates

## June 19, 2009

- Due dates should be established based on the risk factors for that particular contractor and proposal.
- The performance measure on timeliness was specifically changed to allow for establishment of a realistic due date that reflects the estimated amount of time to perform that audit in accordance with GAGAS.
- Auditors should review the proposals for adequacy prior to providing a due date.
- Timely notification of required extensions is important.
- An audit is not considered complete until it is reviewed by management and the report is signed.



## Performing Audits of Subcontract Forward Pricing Proposals MRD 09-PSP-011(R), dated June 30, 2009

- Contracting Officer may request an audit of a subcontract proposal at any tier (notwithstanding availability of data or analyses performed by the prime contractor), if the CO believes that such assistance is necessary to ensure the reasonableness of the total proposed price (DFARS PGI 215.404-3a(i)).
- Prime contractor is responsible to conduct appropriate cost or price analysis (FAR 15.404-3(b)) regardless of the actions of the CO.
- The prime's failure to perform subcontract cost or price analysis is a significant estimating deficiency.



## Performing Audits of Subcontract Forward Pricing Proposals MRD 09-PSP-011(R), dated June 30, 2009

- Auditor responsibilities include:
  - ➔ determining if the prime completed the required subcontract analysis, and
  - ➔ reviewing the adequacy of the prime's subcontract analysis.
- When the prime has not appropriately completed its subcontract analysis, the auditor will:
  - ➔ determine the contractor's completion schedule,
  - ➔ identify subcontract analysis not completed in the audit report,
  - ➔ report the subcontract cost as unsupported, and
  - ➔ assess the need for an assist audit and request the audit, if determined necessary.
- The prime contract auditor should assist the contracting officer in coordinating the overall audit effort relating to significant subcontract pricing actions at prime contractors.



# Financial Liaison Advisors (FLAs)

- Support Commands by providing on-site interface between the buying office and DCAA offices
- Providing appropriate services while maintaining auditor independence
- Facilitate communication between field offices and Commands
  - ➔ Coordinate audit requests/recommend appropriate DCAA services
  - ➔ Explain audit reports and current audit guidance
  - ➔ Elevate Command's concerns to DCAA management



## Source Selection Evaluation Boards (SSEBs)

- Field auditors & Financial Liaison Advisors (FLAs) will no longer be a participating member of SSEBs.
- GAGAS prohibits DCAA from auditing its own work or providing nonaudit services that are significant or material to the subject matter of audits.
- DCAA cannot participate in meetings or debriefings with contractor personnel relating to SSEB support.
- *Field auditors will continue to provide audit services in support of the SSEBs, as requested.*



# DCAA Reporting on Unsatisfactory Conditions

## MRD 09-PAS-004(R), dated March 13, 2009

- DCAA process for reporting unsatisfactory conditions related to actions of Government officials.
  - ➔ Includes actions by Government officials that appear to reflect mismanagement, a failure to comply with specific regulatory requirements, or gross negligence - it is not simple disagreements between the audit position and the contracting officer's decision.
- DCAA process is to handle these conditions by elevating them through the Government official's management chain for resolution.
- However, certain unsatisfactory conditions warrant an independent assessment due to the significant or sensitive nature of the matter - DCAA's revised procedures call for reporting these conditions to the DoDIG.
- *Both procurement officials and auditors are encouraged to engage AT&L in the resolution process.*



## AUDITOR REPORTING OF SUSPECTED CONTRACTOR FRAUD AND OTHER CONTRACTOR IRREGULARITIES

- DCAA Policy - Suspected contractor fraud and irregularities should be reported promptly using DCAA Form 2000, in accordance with the guidance contained in the Contract Audit Manual, and DCAA Instruction No. 7640.16, Reporting Suspected Contractor Fraud and Other Contractor Irregularities.
- **There is no requirement for the auditor to prove the existence of fraud or other contractor irregularities in order to submit a DCAA Form 2000.** The auditor is merely reporting the suspicion of irregularities to the appropriate investigative agencies.
- Auditors are encouraged to use DCAA Form 2000 and initiate a referral through DCAA Headquarters, however, auditors may elect to whether to initiate a personal referral using the DoD Hotline.
- DCAA Form 2000 does not require a Field Audit Office Manager's signature for submission to Headquarters.



## More Information on DCAA

DCAA Audit Guidance Memorandums and Contract Audit Manual (CAM) are available on DCAA's web site at:

<http://www.dcaa.mil>

# Discussion