

## CHAPTER 15

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**CHAPTER 15****15-000 Other DCAA Functions****15-001 Scope of Chapter**

This chapter presents audit policies, procedures, and support requirements relative to other DCAA functions, including contract audit services for non-DoD agencies, the contract audit coordination, financial advisory services, support of negotiation conferences, the contract audit follow-up system, and board of contract appeals cases.

**15-100 Section 1 --- Special Procedures for Non-DoD Agencies****15-101 Introduction**

a. This section presents policies and procedures relating to audit services rendered to non-DoD organizations other than Educational Institutions (Chapter 13), TRICARE (14-902) and National Guard Bureau (14-903).

b. General requirements associated with servicing non-DoD organizations are stated in 15-102. Procedures for processing reimbursement vouchers are discussed in 15-103. Supplemental requirements developed by and tailored to the needs of specific non-DoD organizations are presented in 15-104 through 15-120.

**15-102 General Requirements**

The Contract Audit Manual is the determining guide for the conduct and administration of audits for non-DoD as well as DoD contracts. In addition to general guidance provided throughout CAM, specific comments concerning non-DoD audits are contained in various sections of CAM under the audit area being discussed. Presented below is a recapitulation of pertinent CAM guidance as well as a synopsis of procedures unique to non-DoD organizations. For more detailed information, the auditor should refer to the Reimbursable Audit Program Pamphlet, DCAAP 7230.1.

**15-102.1 Establishing Audit Cognizance and Processing Non-DoD Audit Requests**

a. Cross-servicing arrangements have been made with various non-DoD organizations.

Section 1-300 provides guidance for performing audit services for non-DoD organizations, including the rules for establishing audit cognizance and accepting or rejecting non-DoD requests.

b. Requests from non-DoD organizations not listed in the DMIS User Guide, must be coordinated through Headquarters, as described in 1-303 g and h.

c. An increasing number of non-DoD organizations require their activities to submit requests through their Office of Inspector General. In those cases the DCAA field office will honor all reasonable administrative procedures specified by the requesting Office of Inspector General.

d. The cross-servicing arrangements provide for the non-DoD organizations to send the audit requests to the cognizant DCAA field office. Audits performed without a current audit request could result in disagreements regarding reimbursements for the audit services. When an auditor observes non-DoD contracts subject to audit coverage, for which audit requests have not been received, they will be brought to the attention of appropriate non-DoD officials (contracting officer or Office of Inspector General) to facilitate issuance of requests for audit.

### **15-102.2 Performing Contract Required Audits when Customer Funding is not Available**

a. This guidance supplements information contained in 15-102.7, Audit Reporting, to address those situations in which a non-DoD customer does not have the necessary funds to pay for contract required audit services. The following procedures apply in the event that an FAO has programmed an audit that includes DoD and non-DoD effort and the FAO is advised that there is no funding available to cover one or more non-DoD contracts. If the auditor has been informed by a non-DoD contracting officer that no funding is available and no authorization is provided, the auditor should consider deferring all audit effort until the following fiscal year. However, if deferral is not a viable option, the auditor should proceed as follows:

(1) Notify the contracting officer(s) that their agency's contracts will not be included in the audit and no audit report will be issued to their office.

(2) Adjust the Auditable Dollar Volume (ADV) and scope of audit as necessary.

(3) For billing purposes, audit effort should be allocated to DoD and other participating non-DoD agencies.

(4) Exclude the presentation of information on applicable non-DoD contracts from the audit report.

(5) The contracting officer(s) should be advised when the audit discloses significant weaknesses in the contractor's system of internal controls or adverse conditions that cause the contractor to be high risk. Through discussions with the contracting officer(s), the auditor should identify the weaknesses and/or adverse conditions and state that these deficiencies may impact their agency's contracts. In accordance with 15-102.11, auditors should not expand effort to specifically address issues for non-DoD agencies that are not paying for audit services. However, DCAA has a professional responsibility to advise all affected agencies of conditions or situations that may place the Government at significant risk. Accordingly, audit reports that identify such high risk conditions shall be distributed to all affected agencies.

b. If, after the audit report has been issued, a reimbursable customer approaches the FAO to request audit services for which funding authorization is subsequently made available, the following procedures apply:

(1) The FAO should obtain funding authorization from the contracting officer.

(2) The FAO should set up a separate assignment and perform the necessary audit steps and testing procedures to cover the requested non-DoD contracts. The assignment should be treated as contract required and scheduled considering risk and all workload priorities.

(3) Additional audit effort should be billed to the non-DoD customer.

(4) A separate audit report should be issued that includes indirect rate information as well as direct costs on applicable non-DoD contracts.

**15-102.3 Non-DoD Cost Principles and Procedures**

The Federal Acquisition Regulation (FAR) is the primary regulation for use by all Federal executive agencies in acquiring supplies and services with appropriated funds. Agencies are authorized to issue supplemental regulations tailored to their organizational needs. Thus, the cost principles and procedures applicable to a specific non-DoD organization consist of the FAR together with that agency's supplemental regulation, if any. The auditor should contact the appropriate non-DoD official (requestor, Office of Inspector General, or acquisition office) to determine whether that organization has issued supplemental regulations for agencies not listed below. The following table identifies selected non-DoD agencies that have issued FAR Supplements and identifies those specific FAR cost principles that have been supplemented:

Agency	FAR Supplement	FAR Cost Principles Supplemented
Agency for International Development	AIDAR – Agency for International Development Acquisition Regulations	<ul style="list-style-type: none"> <li>• 31.205-6</li> <li>• 31.205-46</li> </ul> Additional AID Cost Principles: <ul style="list-style-type: none"> <li>• 731.205-70</li> <li>• 731.205-71</li> </ul>
Department of Agriculture	AGAR – Agriculture Acquisition Regulations	None
Department of Commerce	CAR – Commerce Acquisition Regulations	None
Department of Energy	DEAR – Department of Energy Acquisition Regulation	<ul style="list-style-type: none"> <li>• 31.205-18</li> <li>• 31.205-19</li> <li>• 31.205-32</li> <li>• 31.205-33</li> <li>• 31.205-47</li> </ul>
Department of Health and Human Services	HHSAR – Health and Human Services Acquisition Regulations	None
Department of Homeland Security	HSAR – Homeland Security Acquisition Regulation	31.205-32
Department of Housing and Urban Development	HUDAR – HUD Acquisition Regulation	None
Department of Justice	JAR – Justice Acquisition Regulations	• 31.205-32
Department of the Treasury	DTAR – Department of Treasury Acquisition Regulation	None
Department of Transportation	TAR – Department of Transportation Acquisition Regulation	• 31.205-32
Environmental Protection Agency	EPAAR – Environmental Protection Agency Acquisition Regulation	None
National Aeronautics and Space Administration	NFS – NASA FAR Supplement	• 31.205-32
National Science Foundation	National Science Foundation FAR Supplement	• 31.205-32
Veteran’s Administration	Veteran’s Administration Acquisition Regulations (VAAR)	• None

**15-102.4 Final Indirect Cost Rates for non-DoD Contracts**

a. Subpart 42.7 of the Federal Acquisition Regulation provides that final indirect cost rates will be established on the basis of auditor determination where contracting officer determination procedures are not applicable. For non-DoD contractors, contracting officer determination applies to business units under the cognizance of a corporate

or resident administrative contracting office or where the predominant contract dollar amount is with an agency whose procedures require contracting officer determination.

b. The non-DoD organization may issue supplemental regulations that modify the designation of auditor versus contracting officer responsibility for final indirect cost rate determination. The DCAA auditor should comply with the designation in the agency's supplemental regulations. Contact the non-DoD contracting officer to clarify the designation of responsibility if there are any questions on this subject.

c. The format and content of audit reports on annual indirect cost rates, prepared in accordance with 10-500, are the same for non-DoD contracts as for DoD contracts, whether the auditor-determined or contracting officer-determined method applies.

### **15-102.5 Applicability of CAS to non-DoD Contracts**

Cost Accounting Standards (CAS) apply to non-DoD contracts effective April 17, 1992. For further guidance on applicability of the CAS Board's rules, regulations, and standards, see 8-100, 8-200, and 8-300.

### **15-102.6 Obtaining Technical Evaluation of Non-DoD Proposals**

Some non-DoD organizations do not routinely furnish technical reports on contractors' price proposals. In those cases, the auditor should inform the requestor of the need for a technical report (9-306).

### **15-102.7 Audit Reporting**

a. As stated in 15-103d, e, and f, DCAA Forms 1 and 1c or their equivalents will not be used to report suspended and/or disapproved costs to certain contracting organizations. Such reporting will be accomplished promptly after disclosure of the suspended or questioned item by means of a letter or audit report.

b. Interim audit status reports will be issued in all cases where required or requested by the contracting organization in its request for audit of the contract. Audit reports will also be issued in all cases where interim audits disclose any adverse conditions or weaknesses in the contractor's management practices that the auditor feels should be brought to the attention of the contracting officer.

c. Audit reports will be addressed in the manner prescribed by 10-207. A number of non-DoD organizations have requested supplemental distribution of audit reports which frequently includes distribution of the original or one or more copies to their Office of Inspector General. The requested supplemental distribution is commented on in various sections of CAM under the audit area being discussed. The table presented in 15-1S6 lists, by organization and by type of report, the additional distribution requirements for these non-DoD organizations.

d. In conjunction with the above, the non-DoD address lists presented in 15-1S1 through 15-1S5 will provide guidance in identifying the cognizant non-DoD offices which commonly request our services.

e. When a non-DoD organization submits an audit request through its Office of Inspector General, the non-DoD organization assignment number or other identifier will

be included in the “References” section of the cover sheet (Figure 10-2-1) and the first one or two sentences of the audit report (10-207.1c).

f. Guidance on release to the GAO of audit reports and records pertaining to non-DoD organizations is given in 1-200.

#### **15-102.8 Suspected Irregularities**

Procedures for referring suspicions of irregularity with respect to non-DoD contracts are included in DCAAR 7640.15.

#### **15-102.9 Boards of Contract Appeals - Non-DoD Agencies**

General comments on audit services provided to assist in hearings before boards other than the ASBCA appear in 1-406.2.

#### **15-102.10 Non-DoD Postaward Audits**

DCAA's standard memorandum of understanding states that the customer may provide the DCAA Office of Assistant Director, Operations, a list of all contract pricing actions for which the customer wants DCAA to perform a postaward audit in the next fiscal year. This list will constitute specific authority by the customer for DCAA to perform, and bill for, these specific postaward audits.

#### **15-102.11 High Risk Conditions**

Funding constraints now limit the ability of some non-DoD customers to request and pay for routine DCAA audit services for their contracts. However, when performing audits auditors sometimes become aware of high risk conditions (e.g., financial distress or non-performance of Government contracts) that may impact these non-DoD agencies. Although DCAA auditors should not expand efforts to specifically address issues for non-DoD agencies that are not paying for audit services, DCAA has a professional responsibility to advise all affected agencies of conditions or situations that may place the Government at significant risk.

Audit reports that identify such high risk conditions shall be distributed to all affected agencies. This does not include audit reports addressed to administrative contracting officers (e.g., CAS noncompliance reports) since these contracting officers are responsible for resolving the issues and the results will apply to all Government contracts.

#### **15-102.12 Reimbursable Billings**

Field activities will input reimbursable billing information in the DMIS Reimbursable Module in accordance with the requirements of the DMIS User Guide.

#### **15-103 Procedures for Processing Non-DoD Cost-Reimbursement Vouchers**

a. The processing of reimbursement vouchers under cost-reimbursement type contracts awarded by non-DoD organizations can be accomplished by one of five methods, depending

upon which method the organization has selected. These methods are discussed in paragraphs c. through g. below. Paragraph 15-104 identifies the method designated by each of the non-DoD organizations. Common to all methods and contrary to DoD contract voucher processing procedures, reimbursement vouchers under non-DoD agency contracts must be signed by an authorized certifying officer of the contracting organization prior to payment.

b. Certain particular procedures have been adopted by the National Aeronautics and Space Administration (NASA) for its cost-reimbursement type contracts. Since the volume of auditable NASA contracts is substantial, the procedures are described separately in detail in 15-105.

c. Under the first method, interim vouchers will be prepared by the contractor and forwarded directly to the cognizant auditor. They will be evaluated by the auditor and provisionally approved for payment in the same manner as interim vouchers received on DoD cost-reimbursement type contracts. They will then be forwarded to the finance office of the Government organization which awarded the contract for certification and payment. Completion vouchers and necessary supporting documentation will generally be received by auditors and processed in the same manner as DoD completion vouchers. Any suspended or disapproved costs resulting from audit will be reported by use of DCAA Forms 1 and 1c, or equivalent forms as specified by the contracting organization. The procedures for preparation and distribution of the notice of costs suspended and/or disapproved and appeals by the contractor will be as prescribed in 6-902 through 6-908. The auditor will make appropriate deductions on the contractor's submitted vouchers for suspended or disapproved costs.

d. The second method is the same as the first with respect to receipt of vouchers, provisional approval of interim vouchers, and processing of completion vouchers by the auditor. It differs from the first method in that the auditor will report suspended and/or disapproved costs in writing with a recommendation that the amount questioned be deducted from the next available voucher. Vouchers approved for provisional payment, together with the written notification, if any, will be forwarded to the contracting organization's fiscal office. That office should be requested to notify the cognizant audit office of the action taken with respect to any recommended suspension or disapproval. The contracting organization's fiscal office will refer the vouchers and audit reports to the contracting officer, who will certify the vouchers for payment. The contracting officer will also make the determination with respect to the auditor's recommendations for suspended and/or disapproved costs and notify the contractor as appropriate.

e. The third method is the same as the first with respect to receipt of vouchers and provisional approval by the auditor. The vouchers will, however, be forwarded to the contracting organization's contracting officer for final approval, rather than being forwarded to that organization's finance office. Similarly, any notification of suspended and/or disapproved costs will be forwarded to the contracting officer for final approval and notification to the contractor. Such notification will be made in writing with a request that the auditor be advised of the contracting officer's decision. Since the approval of the contracting officer is required before the suspension or disapproval becomes effective, the auditor will not notify the contractor of any such recommendations and should not make any deductions from vouchers for costs suspended and/or disapproved.

f. Under the fourth method, the contracting organization will instruct its contractors to forward interim and completion vouchers directly to the administrative contracting officer or other designated official of the organization. This official will certify the

voucher and process it for payment. The cognizant auditor will receive a paid copy of the voucher. In some cases, however, the contractor may forward an information copy of the voucher to the auditor at the time of its initial submission to the contracting organization. Procedures for reporting questioned costs or fee will be the same as in 15-103d.

g. Under the fifth method, the contractor will forward the first and the final vouchers on each cost-reimbursement type contract to the cognizant auditor. All other vouchers will be submitted directly to the contracting officer's representative. The cognizant auditor will evaluate the initial voucher in accordance with paragraphs 6-1007c and 3-2S1. However, costs will be determined by the cost principles and procedures in the Federal Acquisition Regulation together with agency supplemental regulations. If acceptable, the voucher will be provisionally approved and submitted to the contracting officer's representative. If the evaluation discloses deficiencies in the contractor's internal control or billing procedures which the auditor cannot resolve with the contractor, an audit report will be issued to the contracting organization's Office of Audit. The report should state the deficiencies and the recommendations for corrective action. In addition, the initial voucher should be attached to the audit report. The cognizant auditor will receive a paid copy of each voucher processed under the contract. The final voucher, together with the required documentation submitted by the contractor to the cognizant auditor, will be processed in the same manner as DoD completion vouchers (Section 9 of Chapter 10). DCAA Forms 1, or equivalent forms as specified by the contracting organization, will be prepared for any suspended or disapproved costs. The original and four copies of the form will be forwarded to the contracting organization's Office of Audit with a request that the DCAA auditor be advised of the action taken. However, the original and four copies of DCAA Forms 1 pertaining to contracts awarded by the Department of Transportation will be forwarded to the contracting officer.

**15-104 Non-DoD Organizations to which Various Procedures are Applicable**

Listed below are the non-DoD organizations to which various procedures are applicable. NASA procedures and requirements are discussed separately in 15-105 and 15-106. The various procedures described in 15-103 apply to all other non-DoD organizations. The list designates which procedure applies to each organization. This list comprises all the non-Department of Defense organizations with which arrangements have been made for audits by DCAA of contracts awarded by such organizations.

Organization	Procedure Prescribed by	Notes
Agency for International Development	---	(5)
Department of Agriculture	15-103f	
Department of Commerce	15-103e	
Department of Education	15-103f	
Department of Energy	15-103f	
Department of Health and Human Services	15-103f	
Department of Homeland Security	---	(5)
Department of Housing and Urban Development	15-103f	
Department of the Interior	15-103f	

Department of Justice	---	(5)
Department of Labor	15-103f	
Department of State	15-103d	
Department of Transportation	15-103g	(1)
Department of the Treasury	15-103d	
Department of Veterans Affairs	15-103f	
Environmental Protection Agency	15-103f	(2)
Government Accountability Office	15-103c	
General Services Administration	15-103f	
National Aeronautics and Space Administration	15-105, 15-106	
National Science Foundation	15-103f	(3)
Nuclear Regulatory Commission	15-103d	
U.S. Postal Service	15-103c	(4)
All Others	---	(5)

## Notes:

(1) The DCAA auditor will not make any deductions on public vouchers. For cost-reimbursement type contracts awarded by the Department of Transportation, the vouchers and audit reports will be submitted to the cognizant contracting organizations listed in 15-1S4.

(2) Contractors will forward the original interim voucher directly to the finance office with copies for the project office and contracting office. The finance office processes the vouchers for payment which includes Project Officer review and approval of costs and identification of any suspended costs. Costs which may be disallowed are referred to the Contracting Officer. Paid vouchers are provided to the contracting office. The contractor will be provided with the EPA Form 1900-68 which explains any suspended or disallowed costs. Any costs that are disallowed will also be referred to the cognizant audit office at that time for inclusion in the annual incurred cost audits. Completion invoices are submitted along with an interim cumulative claim and reconciliation statement which summarizes costs claimed at the point of completion. After receipt of these documents, the Contracting Officer requests that a final contract audit be performed through the EPA Office of Acquisition Management who prepares a request to the EPA Office of the Inspector General and the cognizant audit offices. As Contract Audit Closing Statements are requested, the requesting office will obtain a Contract Payment System Report showing invoice payments and adjustments and identify any suspended or disallowed costs in the audit request.

(3) For interim vouchers, NSF will instruct its contractors to submit the vouchers to the NSF finance office. They are then forwarded to the contracting officer's technical representative for approval. This official certifies the voucher and returns it to the finance office for approval. Contractors are required to send completion vouchers to the NSF contracting officer. When NSF is the cognizant agency, the NSF contracting officer will either discuss with or send vouchers to the NSF Cost Analysis/Audit Resolution Branch to incorporate final overhead rates in all contracts that have post determined rates. If another agency is cognizant, the NSF contracting officer will discuss with or send completion vouchers to the NSF Office of Inspector General (OIG) to consider for final audit. If it is determined that a final audit is desired, the NSF OIG may forward the vouchers to the cognizant auditor.

(4) Interim and completion vouchers should be sent to the cognizant U.S. Postal Inspection Service requesting the audit, with one copy to the contracting officer.

(5) See information under specific customer in DCAAP 7230.1, DCAA Reimbursable Audit Program Pamphlet.

### **15-105 Procedures Applicable to Cost Reimbursement Contracts Awarded by National Aeronautics and Space Administration (NASA)**

#### **15-105.1 General**

a. NASA contracting officers will furnish DCAA branch managers or resident auditors with a separate letter of delegation of authority to perform audits to cover each cost-reimbursement type contract for which an audit is requested. The letter will be accompanied by:

(1) an attachment setting forth the details of the audit services to be performed and

(2) a form designated "Acceptance of Delegation of Audit Services Function," which is to be acknowledged and returned to the contracting officer.

This form also provides for an estimate of the cost of audit performance by fiscal year for each contract, including related auditable subcontracts. The FAO should complete the form, except for the section on estimated cost of audit performance, and transmit it directly to the contracting officer. The estimated cost of audit performance will not be entered, since DCAA Headquarters will furnish such estimates to NASA on an agency-wide basis rather than by individual contract.

b. Vouchers under cost-reimbursement-type NASA contracts will be processed in accordance with procedures described below. These procedures are applicable only to vouchers for reimbursement of costs. Claims for fees are submitted by contractors on separate vouchers directly to the NASA contracting officer for evaluation and administrative approval. If the audit discloses any information concerning fees which should be brought to the attention of the contracting officer, this information will be promptly furnished by letter or audit report.

(1) Interim reimbursement vouchers for incurred costs can be submitted either directly to disbursing offices or to the auditor. (See 6-1003b) When interim vouchers are submitted to the auditor, he/she will approve them for provisional payment and send them directly to the designated NASA Center for certification and payment. Final vouchers will be submitted by the contractor directly to the auditor for appropriate evaluation and transmittal to the responsible administrative contracting officer. The procedures applicable to DoD contracts will be utilized in processing these vouchers. The auditor therefore will not sign final vouchers. The contractor will submit, as a minimum, enough copies of vouchers to accommodate the distribution requested in the attachment to the letter of delegation received from NASA contracting officers (see 15-105.1a), as well as one copy each for retention by the cognizant auditor and the administrative contracting officer.

(2) NASA Form 456, Notice of Costs Suspended and/or Disapproved, will be used in lieu of DCAA Forms 1 and 1c. When an issue covered by the Form 456 also affects other contracts not included on the Form 456, such as DoD, other civilian agencies, or other NASA contracts, include a schedule of the affected contracts, showing the contract number, suspended/disapproved amount, and contracting officer's name and phone

number. This information is very helpful for the NASA contracting officer to facilitate Government-wide consistency on dispositioning the issue.

(3) After preparation of the NASA Form 456, the auditor will submit it to the NASA contracting officer for review, approval, and countersignature in the number of copies requested by the attachment to the NASA letter of delegation referred to in 15-105.1a. One copy of this form will also be retained by the auditor. After approval and countersignature, the NASA contracting officer will send two copies of the approved NASA Form 456 to the contractor to advise of the suspension or disapproval and will return three copies to the cognizant auditor. The auditor should offer to obtain the contractor acknowledgment of the approved Form 456 and distribute the form copies according to the NASA instructions, if doing so would expedite the procedures. The auditor will attach two copies of the approved Form 456 to the next subsequent voucher provisionally approved. If the contractor has not made a deduction on this voucher for the amount shown thereon, the auditor will make the necessary deduction.

c. If there are NASA cost-reimbursement-type contracts which provide for use of actual indirect cost rates, NASA Forms 456 for each such contract will be submitted with the indirect cost report to NASA ( 10-506 ) to adjust any excess of indirect costs previously claimed on such contracts over the amount allowable.

### **15-105.2 Contract Audit Closing Statements**

Upon completion of the audit of each NASA cost-reimbursement-type contract, issue a contract audit closing statement to the cognizant contracting officer. The closing statement will conform to the format and content prescribed in 10-900.

### **15-106 Supplemental Requirements for NASA Contracts**

To meet the needs of special local situations, departures from procedures described in this section may be arranged by DCAA Headquarters, ATTN: OAL, and the cognizant NASA contracting officer.

#### **15-106.1 NASA Cost Principles and Procedures**

a. The cost principles and procedures prescribed by the Federal Acquisition Regulation (FAR) together with the NASA FAR Supplement (NFS) apply to NASA contracts. Each FAO responsible for audits of NASA contracts should maintain a current copy of applicable parts of these regulations.

b. When costs are allocable to a contract, but are unallowable under NASA cost principles, they will not be charged directly or indirectly to any other contract.

#### **15-106.2 Audit Services for NASA**

a. The policy for establishing cognizance and accepting or rejecting non-DoD audit requests stated in 1-300 does not apply to NASA. DCAA will perform all contract audit work requested by NASA (1-303i).

b. Although not subject to the provisions of DoDI 7640.02, Policy for Follow-up on Contract Audit Reports, NASA has elected to use the DCAA monthly reports, as described in 15-604.3, for all contract audit reports reportable under 15-603.2.

c. Refer to Chapter 13 for policies and procedures relating to OMB circular A-133 Audit services rendered to NASA.

### **15-106.3 Programming Operations Audits at NASA Locations**

a. NASA has requested that certain specified areas which may significantly affect the level of costs incurred be given selective audit emphasis as part of the normal evaluation of contractors' activities. These areas are listed in Supplement 3-S20.

b. The selection of systems/operations audits to be performed will be based on such factors as the dollar value of NASA contracts, type of contract, performance requirements, prior audit experience, and special matters of particular concern to NASA. The DCAA auditor should confer with the cognizant NASA contracting officer (see Supplement 15-1S2) prior to establishing the annual audit plan. The auditor should also communicate with the NASA contracting officer thereafter when major changes are being made or when other circumstances so warrant, to identify those functions which are of particular interest to NASA and to determine whether the audit service rendered is sufficient for NASA procurement purposes.

c. Promptly after completing each operations audit prepare and distribute a report in accordance with 10-400.

### **15-106.4 Special Information Reports for NASA**

a. A special report will be submitted promptly to NASA when underruns or overruns, terminations, unexpected changes, inadequate contractor controls, or any other unusual circumstances will have an immediate and significant impact on the costs of NASA contracts.

b. Prepare such reports in a letter format in accordance with 10-1200. Usually a standard scope of audit statement would not be applicable in providing information of this nature. Rather than using terms such as "report," "audit (examination)," "review," or "application of agreed-upon procedures," the subject should refer to the information being provided for NASA. For example, a report subject might begin: "Information for NASA on Contractor's Internal Controls."

c. If there is a NASA administrative contracting officer or contracting officer's representative assigned to the contractor facility, the report may be addressed to that official. Otherwise, address the report to the NASA procurement contracting officer having the major NASA interest in the contractor's operations.

### **15-106.5 Indirect Cost Audit Reports for NASA**

a. The Federal Acquisition Regulation together with the NASA FAR Supplement provide that final indirect cost rates will be established on the basis of auditor determination when contracting officer determination procedures are not applicable. Contracting officer determination applies at business units under the cognizance of a NASA administrative contracting officer or when NASA has the predominant contract dollar

amount (FAR 42.705-1). For contractors subject to indirect cost rates determined by DCAA, NASA treats the DCAA report rates as final. If NASA is responsible for the rate determination, the DCAA report is advisory and will be addressed accordingly.

b. In view of the foregoing, the formats and contents of audit reports on annual indirect cost rates, prepared in accordance with 10-500, are the same for NASA contracts as for DoD contracts, whether the auditor-determined or contracting officer-determined method applies. Provide additional distribution for NASA per 10-507.

#### **15-106.6 Audits of Progress Payments for NASA**

a. Audits of progress payments under NASA fixed-price contracts will be initiated as requested by NASA procurement offices. The cognizant NASA contracting officer will provide the responsible DCAA branch manager or resident auditor a letter of delegation for each contract selected. Each letter of delegation will be accompanied by a form designated "Acceptance of Delegation of Audit Services Function," which should be completed by the DCAA office and returned to the originating NASA office.

b. Audits of progress payments and preparation, addressing, and distribution of related audit reports will be governed by 14-206.

#### **15-107 Supplemental Requirements for Agency for International Development (AID) Contracts**

Special AID audit and reporting requirements are stated in 13-310. These requirements, although applicable primarily to contracts awarded to educational institutions, also apply to contracts awarded to other nonprofit and commercial contractors and should be noted in such cases.

#### **15-108 Supplemental Requirements for Department of Agriculture Contracts**

Audit services will be provided the Department of Agriculture (USDA) only if the request is made by the cognizant regional Department of Agriculture Office of Inspector General - Auditing (OIG-A) (15-1S5). Requests received directly from a USDA agency should be returned, with a reminder that such requests must be channeled through the USDA regional OIG-A.

#### **15-109 Supplemental Requirements for Department of Commerce Contracts**

Audit requests are no longer administered through the Office of Inspector General. Instead, all reports should be sent directly to the requesting activity.

#### **15-110 Supplemental Requirements for Department of Energy Contracts**

a. The cost principles and procedures prescribed by the Federal Acquisition Regulation (FAR), supplemented by the Department of Energy Acquisition Regulation (DEAR), apply to Department of Energy contracts. DEAR Part 931 applies to DOE contracts other than DOE prime contracts covered by DEAR Subpart 970.31 which involve operation of Government-owned-contractor-operated facilities and National Laborato-

ries. A contract covered by DEAR Subpart 970.31 will contain a special cost principle clause setting forth provisions on allowable and unallowable costs applicable to the contract. In auditing DOE contracts, auditors will comply with all reasonable requirements and instructions of DOE.

b. Costs claimed under DOE contracts should be evaluated in accordance with the applicable provisions cited therein. Costs unallowable under a contract in accordance with its governing cost principles will not be charged directly or indirectly to any other contract.

c. DCAA has agreed to perform contract audit work at all DOE prime contractor locations other than those designated as Management and Operating Contractors (1-303h).

#### **15-111 Supplemental Requirements for Department of Health and Human Services (DHHS) and Health Care Financing Administration (HCFA) Contracts.**

a. The Department of Health and Human Services (DHHS) has placed some constraints upon its representatives regarding their authority to issue requests for audit services.

(1) Requests for audits of pricing proposals from contracting officers, program directors, or price analysts shall be honored. A copy of reports sent to contracting officers will be distributed to the DHHS Office of Inspector General (15-1S3).

(2) Other audit requests must come from the regional or headquarters office of the DHHS Inspector General (15-1S3). The Inspector General will forward the audit reports to the using activity.

b. Any long-term requests or informal understandings should be confirmed with the DHHS Office of the Inspector General.

c. When an auditor observes DHHS contracts subject to audit coverage for which audit requests have not been received, the auditor should notify the DHHS Office of the Inspector General and determine if funding is available. This includes those DHHS contracts benefiting from operations audits or other across-the-board audits.

d. For Health Care Financing Administration, Peer Review Organization (HCFA PRO) audits, all audit services will be processed through the Chesapeake Bay Branch Office of the Mid-Atlantic Region. Should any FAO receive a request directly from HCFA, they should notify the Chesapeake Bay Branch to ensure that the audit has been authorized and funded. Funding is limited on the HCFA PRO audits and FAOs must ensure that billings for these audits do not exceed the amount that has been funded for the assignment.

#### **15-112 Supplemental Requirements for Department of the Interior Contracts**

The Department of Interior, Office of Inspector General has delegated responsibility for audit requests to the individual bureaus within the department. Accordingly, audit requests may come from any component of the Department of Interior.

#### **15-113 Supplemental Requirements for Department of Labor Contracts**

Audit services will be provided to the Department of Labor (DOL) only if requests are received from the Assistant Inspector General for Audit. DCAA must obtain a written re-

quest for all audits, including contract required audits. DOL's procurement offices may neither request nor authorize audits.

### **15-114 Supplemental Requirements for Department of Transportation Contracts**

a. The Office of Inspector General (OIG) for the Department of Transportation (DOT) is no longer responsible for processing DCAA audits. This change came about as a result of the DOT's Appropriations Act for 1997 which eliminated all OIG funding for DCAA contract audits. Accordingly, each DOT contracting officer is authorized to request audit services through an Interagency Agreement Order (IAO). This means that each audit will be requested, and can only be performed, upon issuance of a task order. The DOT contracting activity will notify the cognizant FAO of an impending audit and request a dollar amount for obligating funds. FAOs should give the DOT an estimate of funds based on the anticipated number of billable audit hours times the current reimbursable hourly rate. Billable hours is defined as the sum of direct audit hours plus the application of the Reimbursable Adder Rate (RAR factor). FAOs should not commence audit effort until a written and signed notification, in the form of an Interagency Agreement Order (IAO), is received from the DOT contracting officer.

b. It is extremely important for FAOs to closely monitor the number of audit hours expended on each DOT order for audit services. Our objective is to assure that no hours are expended in excess of hours funded. Therefore, it is imperative that each FAO keep track of the cumulative billable hours on each DOT audit assignment. In order to provide adequate safeguards to ensure funded hours are not exceeded, FAOs are required to establish a system for monitoring the hours expended on DOT audits. This system should incorporate an internal control which requires a reassessment of the estimated hours (obligated funds) once 75% of the direct hours budgeted have been expended. If it appears that the estimated hours are not adequate, the Department of Transportation contracting officer should be advised of the following available options:

(1) The contracting officer can modify the IAO to provide sufficient funds for the level of effort to be provided, or

(2) The contracting officer can request that audit effort continue until the funds that have been obligated are depleted. In this case, the contracting officer should be advised that the audit report will reflect an audit opinion appropriate for the level of effort that was expended (i.e., this could mean an adverse opinion will be issued), or

(3) The contracting officer can direct termination of the work and no audit report will be issued.

c. In accordance with P.L. 104-50, section 348, the Federal Aviation Administration is exempt from FAR and any other regulatory material not specifically included in the FAA "Acquisition Management System" (AMS), effective April 1, 1996. The FAA AMS cost principles can be accessed at <http://fast.faa.gov/>. Though the FAA AMS cost principles mirror those covered in the FAR Part 31, allowability of costs on FAA contracts should be determined using the FAA AMS cost principles. The FAA AMS should also be the applicable regulation cited in the audit report. However, at contractor locations where contract administration responsibility rests with another Government agency (e.g., DoD, DOE, etc.) the cost principles (e.g., FAR, DFARS, etc.) used by the agency having contract administration responsibility may be used to determine the allowability of costs for FAA contracts. Auditors

at contractor locations with FAA contracts should verify which agency has the contract administration responsibility.

d. For each audit report sent to a DOT activity (including the Massachusetts Highway Department Central Artery/Third Harbor Tunnel project), send two copies of the report to the DOT Office of the Inspector General. An address list for Department of Transportation offices is provided on 15-1S4.

### **15-115 Supplemental Requirements for Department of the Treasury Contracts**

a. With the exception of the Internal Revenue Service (IRS), Treasury Inspector General for Tax Administration (TIGTA), copies of audit reports pertaining to a Department of Treasury contract or procurement action will be sent to:

Department of the Treasury  
Office of the Inspector General  
1500 Pennsylvania Ave., NW  
Room 2412  
Washington, DC 20220

b. If the audit report is for the IRS, TIGTA, the original report should be mailed to:

Treasury Inspector General for Tax Administration  
Attn: Director, Special Projects  
915 Second Avenue, Room 2640  
Seattle, WA 98174

In addition, two copies should be mailed to:

Internal Revenue Service,  
Procurement Chief,  
Cost and Price Analysis Branch  
6009 Oxon Hill Road, Suite 700  
Oxon Hill, MD 20745-3129

### **15-116 Supplemental Requirements for Environmental Protection Agency Contracts**

a. The Environmental Protection Agency (EPA) Office of Inspector General, DCAA Monitoring Team, will authorize and coordinate all audit requests. EPA has requested that FAOs send the Notification of Contract Required Audits (including a copy of Schedule H from the claim and reimbursable participation percentage by Agency for incurred cost audit) and all acknowledgment letters within two weeks of receiving the EPA Audit control Number and that the following information be included in the letter:

- (1) EPA contract/subcontract number to be audited.
- (2) Contract period of performance to be audited.
- (3) Reference the EPA Audit Control Number.
- (4) DCAA Assignment Number.
- (5) Estimated audit hours, including hours for assist audit.

(6) Estimated final report date.

EPA procedures require that audit requests must include a valid ten-digit EPA control number; otherwise the assignment is not to be accepted/reimbursed. All requests for EPA OIG audit control numbers, correspondence, and a copy of all audit reports should be e-mailed to: [dcaa.monitoring@epa.gov](mailto:dcaa.monitoring@epa.gov) and [mailbox.farnsc@epa.gov](mailto:mailbox.farnsc@epa.gov). A hard copy of the audit reports should be mailed to FARNSC at the following address:

U.S. EPA  
Aerial Rios Building  
(Mail Code 3802R)  
1200 Pennsylvania Ave., NW  
Washington, DC 20460  
ATTN: Manager, FARNSC

b. If requested, an annual report will be sent to the Inspector General for Audits on each contractor/grantee where:

- (1) EPA contracts/grants are in excess of \$1 million, or
- (2) two or more contracts/grants are in effect during the contractor's fiscal year.

In its request for audit, EPA will indicate the type of information required in the annual report, such as status of contracts/grants, amounts questioned, and other related data.

### **15-117 Supplemental Requirements for National Science Foundation (NSF) Contracts**

All audit requests will originate from the National Science Foundation, Office of Inspector General, 4201 Wilson Boulevard, Arlington, Virginia 22230. All questions concerning National Science Foundation audit requests will be directed to this address. The procedures described in 1-300 should be followed when auditable NSF contracts are identified for which audits have not been requested.

### **15-118 Supplemental Requirements for U.S. Army Corps of Engineers (USACE) Contracts**

a. Requests for audit services will be issued by the individual USACE's contracting activities. Only audits of USACE Civil Works projects are reimbursable. Funds for Civil Works projects come from the Energy and Water Development Appropriation and not from DOD. DCAA provides audit support for USACE-funded Military contracts and agreements at no cost. The auditor will need to contact the requester to find out if the contract is Military (not reimbursable) or Civil Works (reimbursable). Refer to the Reimbursable Pamphlet for additional information.

b. DCAA will also provide contract audit support to USACE contracting personnel during civil and military emergencies, disasters and special operations. DCAA may be requested to perform real-time audit support on-site (e.g., physical observations of contract performance) and on an expedited basis. In addition to the routine audit services, DCAA may be requested to provide financial advisory services in support of the Government's acquisition program for the emergency response efforts. The auditor will issue an acknowledgement letter identifying the specific services (both audit and non-audit) and any related reporting requirements once the services have been defined and coordinated with USACE. (See guidance in 2-105 when performing non-audit services).

### **15-119 Supplemental Requirements for Department of Education Contracts**

All requests for audit services will be issued only by the Department of Education, Office of Inspector General. Education prefers to notify DCAA when a contract should be included in a contract required audit. FAOs should not request a written confirmation when Education declines to participate in a contract required audit. FAOs must have an audit request prior to initiating any audit for Education.

### **15-120 Supplemental Requirements for DHS Contracts**

a. The Memorandum of Understanding (MOU) between DCAA and Department of Homeland Security (DHS), Office of the Chief Procurement Officer (OCPO) covers all DHS organizational elements. DHS organizational elements will address requests for audits directly to the cognizant DCAA field office.

b. Completed DCAA audit reports will be sent to the requesting organizational element and/or whoever is designated in the request. In addition, copies of the following types of audit reports, memorandums, or DCAA Forms will be provided to the DHS Office of the Chief Procurement Officer, Director, Oversight and Strategic Support, electronically at Procurement.Support@dhs.gov:

(1) Audits of Contractor Business Systems (accounting system, estimating system, compensation system, etc.);

(2) Audits of Compliance with Cost Accounting Standards;

(3) Audits of Cost Impact Proposals submitted pursuant to the Cost Accounting Standards clause (changes in cost accounting practice and/or noncompliances);

(4) Postaward Audits (Reviews for Compliance with the Truth in Negotiations Act);

(5) DCAA reports and memorandums that contain questioned costs or cost disallowances; and

(6) DCAA Forms 1 and Forms 2000. The Forms 2000 will be provided to DHS by the Justice Liaison Auditor at DCAA Headquarters.

### **15-121 Requests for Audit Services Received from State or Local Governments**

a. This guidance pertains to requests for audit services when the request is initiated by a representative of a state or local government. The procedures are based on the provisions of OMB Circular No. A-97, "Rules and Regulations Permitting Federal Agencies to Provide Specialized or Technical Services to State and Local Units of Government under Title III of the Intergovernmental Cooperation Act of 1968." The OMB Circular sets the ground rules permitting federal agencies to provide specialized or technical services to state and local governments.

b. Title III of the Intergovernmental Cooperation Act of 1968 is intended to:

(1) encourage intergovernmental cooperation in the conduct of specialized or technical services,

(2) enable state and local governments to avoid unnecessary duplication of special service functions, and

(3) authorize federal agencies that do not have such authority to provide reimbursable specialized and technical services to state and local governments.

c. Requests for Indirect Rate Information. Field audit offices (FAOs) are authorized to provide readily available contractor information to an audit representative from a state or local government. This includes information that is contained in an audit report or information that is contained in the permanent files on the contractor. Auditors may answer questions and concerns raised by the requestor and may provide a copy of the audit report to them. The key requirement is that the information is readily available and does not require additional audit effort. The FAO should not bill the requesting entity, since this type of effort is not a billable activity.

d. Requests for Contract Audit Services. At contractor locations where DCAA is the responsible audit agency, FAOs may be asked to perform contract audit services by a state or local government. FAOs should first check with Headquarters, ATTN: OWD, to determine if a Memorandum of Understanding (MOU) is in place for the requesting organization, to obtain the Funding Customer Identification (FCID) billing code, and the billing rate to be used. Both the MOU and the funding arrangements must be in place prior to providing any audit services. When performing audits for state and local governments, bear in mind that the following conditions must be met:

(1) The effort is consistent with work normally performed under our contract audit mission;

(2) There is a written request for services from the state or local government;

(3) The services requested can be performed without a negative impact on the existing audit staff;

(4) The predominance of audit services will be at contractors that have either DoD or other Federal contract awards subject to audit. The provision of audit services at contractors that have no DCAA presence will be incidental and at the discretion of the Regional Director.

(5) The requestor agrees to pay for the audit services in advance and a funding authorization number is contained in the request; and

(6) The requestor certifies that the requested audit "cannot be procured reasonably and expeditiously through ordinary business channels."

**15-1S1 Non-DoD Supplement - Address List for NASA Office of Inspector General  
Field Offices**

The NASA Office of Inspector General has established a centralized office and e-mail address for the receipt of DCAA audit reports. Audit reports should be sent to the cognizant NASA IG office when the NASA IG requests that it be furnished a copy.

NASA Office of Inspector General  
Assistant Inspector General for Auditing  
Code W  
NASA Headquarters  
300 E Street, S.W.  
Washington, DC 20546-0001  
(202) 358-1220  
(202) 358-3022 FAX  
E-mail address: [dcaa@nasa.gov](mailto:dcaa@nasa.gov)

DCAA audit reports should not be sent to the following NASA-IG offices, unless specifically requested by the OIG. The following list of OIG offices is for information purposes and should be used if there is a need for auditor contact:

Address of Center
NASA Office of Inspector General Mail Stop 190 Goddard Space Flight Center Greenbelt, MD 20771-0001 (301) 286-0497 (301) 286-1680 FAX
NASA Office of Inspector General Mail Stop 501-9 Glenn Research Center at Lewis Field Cleveland, OH 44135-3191 (216) 433-5413 (216) 433-5489 FAX
NASA Office of Inspector General Mail Stop 292, Langley Research Center Hampton, VA 23681-2199 (757) 864-8500 (757) 864-6328 FAX

NASA Office of Inspector General Mail Stop M-DI, Bldg 4201 George C. Marshall Space Flight Center Marshall Space Flight Center, AL 35812-0001 (256) 544-1149 (256) 544-5856 FAX
NASA Office of Inspector General Mail Stop KSC/OIG John F. Kennedy Space Center Kennedy Space Center, FL 32899-0001 (321) 867-4531 (321) 867-4881 FAX
NASA Office of Inspector General Mail Stop 204-11, Ames Research Center Moffett Field, CA 94035-0001 (650) 604-2672 (650) 604-3955 FAX
NASA Office of Inspector General Mail Stop 180-300 Jet Propulsion Laboratory 4800 Oak Grove Drive Pasadena, CA 91109-8099 (818) 354-3360 (818) 393-4882 FAX
NASA Office of Inspector General Mail Stop W-JS Lyndon B. Johnson Space Center 2101 NASA Road 1 Houston, TX 77058-3696 (281) 483-4773 (281) 483-5773 FAX

**15-1S2 Non-DoD Supplement --- Address List for NASA Procurement Centers**

<p>Langley Research Center, NASA P. O. Box 1000 Mail Stop 126 Hampton, VA 23681-2199 (757) 864-2426 (757) 864-8541 FAX</p>	<p>NAS 1 (1) NNL (2)</p>
<p>Ames Research Center, NASA Mail Stop 241-1 Moffett Field, CA 94035-1000 (650) 604-5800 (650) 604-4646 FAX</p>	<p>NAS 2 (1) NNA (2)</p>
<p>John H. Glenn Research Center Mail Stop 500-313 21000 Brookpark Road Cleveland, OH 44135-3191 (216) 433-2800 (216) 433-5489 FAX</p>	<p>NAS 3 (1) NNC (2)</p>
<p>Dryden Flight Research Center, NASA P.O. Box 273 Mail Stop D-1044 Edwards, CA 93523-0273 (661) 276-3326 (661) 276-2292 FAX</p>	<p>NAS 4 (1) NND (2)</p>
<p>Goddard Space Flight Center, NASA Mail Stop 210.1 Greenbelt, MD 20771-0001 (301) 286-7522 (301) 286-1706 FAX</p>	<p>NAS 5, NAS W (1) NNG, NNH (2)</p>
<p>NASA Management Office - JPL Mail Stop 180-801 4800 Oak Grove Drive Pasadena, CA 91109-8099 (818) 354-4817 (818) 354-6051 FAX</p>	<p>NAS 7 (1) NNN (2)</p>
<p>George C. Marshall Space Flight Center, NASA Mail Stop PS01 Marshall Space Flight Center, AL 35812-0001 (256) 544-0253 (256) 544-9344 FAX</p>	<p>NAS 8 (1) NNM (2)</p>

Lyndon B. Johnson Space Center, NASA Mail Stop BD8 2101 NASA Road 1 Houston, TX 77058-3696 (281) 483-5554 (281) 483-3106 FAX	NAS 9, NAS 15 (1) NNJ (2)
John F. Kennedy Space Center, NASA Mail Stop OP Kennedy Space Center, FL 32899-0001 (321) 867-7212 (321) 867-8599 FAX	NAS 10 (1) NNK (2)
John C. Stennis Space Center, NASA Mail Stop BA30 Stennis Space Center, MS 39529-6000 (228) 688-3632 (228) 688-1141 FAX	NAS 13 (1) NNS (2)

Notes

- (1) For NASA contracts awarded on or before September 30, 2003.
- (2) For NASA contracts awarded on or after October 1, 2003.

**15-1S3 Non-DoD Supplement --- Address List for Department of Health and Human Services Regional Audit Offices**

<b>Region</b>	<b>Address of Regional Audit Office</b>	<b>Geographic Areas</b>
I.	Regional Inspector General for Audit, DHHS John F. Kennedy Federal Building, RM 2425 Boston, MA 02203 (617) 565-2684 (617) 565-3750 FAX	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island & Vermont
II.	Regional Inspector General for Audit, DHHS Federal Building, RM 3900A 26 Federal Plaza New York, NY 10278 (212) 264-4620 (212) 264-6307 FAX	New Jersey, New York, Puerto Rico & Virgin Islands
III.	Regional Inspector General for Audit, DHHS 535 Market St Rm 4300 Philadelphia, PA 19101 (215) 861-4470 (215) 861-4541 FAX	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia & West Virginia
IV.	Regional Inspector General for Audit, DHHS 61 Forsyth Street, SW Room 3T41 Atlanta, GA 30301 (404) 562-7251(404) 562-7795 FAX	Alabama, Florida, Georgia, North Carolina, and South Carolina
V.	Regional Inspector General for Audit, DHHS 105 West Adams 23rd Floor Chicago, IL 60603 (312) 353-2618 (312) 353-1194 FAX	Illinois, Indiana, Michigan, Minnesota, Ohio & Wisconsin
VI.	Regional Inspector General for Audit, DHHS 1100 Commerce Street RM 4E1A Dallas, TX 75242 (214) 767-8414 (214)767-2039 FAX	Arkansas, Louisiana, New Mexico, Oklahoma, & Texas
VII.	Regional Inspector General for Audit, DHHS 601 E. 12th ST RM 4A-5 Federal Building Kansas City, MO 64106 (816) 426-3591 (816) 426-3655 FAX	Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, North Dakota, South Dakota, Utah, & Wyoming

VIII.	Regional Inspector General for Audit, DHHS Federal Office Building 50 United Nations Plaza RM 171 San Francisco, CA 94102 (415) 437-8369(415) 437-8372 FAX	Alaska, Arizona, California, Hawaii, Idaho, Nevada, Ore- gon, Washington, American Samoa, Guam, Trust Ter. of Pacific Islands, & Wake Isl- and
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**15-1S4 Non-DoD Supplement -- Address List for Department of Transportation  
Offices**

<b>Address of Office</b>	<b>Supplemental Address for Submission of Public Vouchers and Audit Reports</b>
Department of Transportation Office of the Inspector General Office of Planning, Training & Tech Support, JA-2 Room 9210 400 7th Street, SW Washington, DC 20590 (202) 366-2704 (202) 366-3912 FAX	Not Applicable
Department of Transportation Office of the Secretary 400 7th Street SW M-63 Rm 5106 Washington, DC 20590 (202) 366-4953 (202) 366-9848 FAX	ATTN: Acquisition Management Includes former Transportation Administrative Service Center (TASC) (Contract No. Prefix DTOS59 or DTTS59)
Research and Special Programs Administration Volpe National Transportation Systems Center, Kendall Square 55 Broadway DTS-85 Cambridge, MA 02142 (617) 494-2170 (617) 494-3656 FAX	ATTN: Contract Price Analyst, DTS-85 (Contract No. Prefix DTRS57)
Department of Transportation Research and Special Programs Admin. Office of Contracts and Procurement 400 7th Street, SW Rm. 7104 Washington, DC 20590 (202) 366-5180 (202) 366-7974 FAX	ATTN: Contracting Officer, DMA-30 (Contract No. Prefix DTRS56)
Federal Highway Admin. Headquarters 400 7th Street, SW Rm. 4410 Washington, DC 20590 (202) 366-4205 (202) 366-3705 FAX	ATTN: Office of Acquisition Management, HAAM-10 (Contract No. Prefix - DTFH61)

Address of Office	Supplemental Address for Submission of Public Vouchers and Audit Reports
Federal Land Highway Program Office 400 7th Street, SW Rm 6311 Washington, DC 20590 (202) 366-9482 (202) 366-7495 FAX	ATTN: Director of Acquisition, HFL-1 (Contract No. Prefix DTFH68, 70 and 71)
Federal Transit Admin. 400 7th Street, SW Rm 9101 Washington, DC 20590 (202) 366-4980 (202) 366-3808 FAX	ATTN: Director, Office of Procurement, TAD-40 (Contract No. Prefix DTUM and DTFT 60)
Federal Railroad Admin. 1120 Vermont Ave NW MS-50 Washington, DC 20590 (202) 493-6130 (202) 493-6171 FAX	
National Highway Traffic Safety Admin. 400 7th Street, SW Rm 5301 Washington, DC 20590 (202) 366-9561 (202) 366-9555 FAX	ATTN: Contracting Policy Analyst, NPO-220, Office of Contracts and Procurement (Contract No. Prefix DTNH22)
St. Lawrence Seaway Development Corp. P.O. Box 520 Massena, NY 13662 (315) 764-3244 (315) 764-3268 FAX	ATTN: Contracting Office (Contract No. Prefix DTSL55)
United States Maritime Admin. 400 7th Street, SW Rm 7310 Washington, DC 20590 (202) 366-9081 (202) 366-3237 FAX	ATTN: Deputy Director, MAR-380 (Contract No. Prefix DTMA)
Federal Aviation Admin. Headquarters 800 Independence Ave, SW Washington, DC 20591 (202) 267-7535 (202) 267-5149 FAX	ATTN: Contracts Support Branch, ASU-370, (Contract No. Prefix DTFA01 and DTFAWA)
Federal Aviation Admin. Aeronautical Center, AMQ 120 P.O. Box 25082 Oklahoma City, OK 73125 (405) 954-7713 (405) 954-0133 FAX	ATTN: Pricing Support Services, AMQ (Contract No. Prefix DTFA-AC02)

<b>Address of Office</b>	<b>Supplemental Address for Submission of Public Vouchers and Audit Reports</b>
Federal Aviation Admin. Wm J. Hughes Technical Center Atlantic City International Airport, Atlantic City, NJ 08405 (609) 485-6320/6127 (609) 485-6766 FAX	ATTN: Contracts Manager, ACX-51/52 (Contract No. Prefix DTFA03)

**15-1S5 Non-DoD Supplement --- Address List for Department of Agriculture  
Regional Audit Offices**

Address of Regional Audit Office	Geographic Areas
Regional Inspector General Northeast Region Suite 2-2230 5601 Sunnyside Ave. MS 5300 Beltsville , MD 20705-5300 (301) 504-2100 (301) 504-2437 FAX	Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virgin Islands, Virginia, and West Virginia
Regional Inspector General Southeast Region 401 W. Peachtree Street, NW Suite 2328 Atlanta, GA 30308 (404) 730-3210 (404) 730-3221 FAX	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee
Regional Inspector General Midwest Region 111 N. Canal Street Suite 1130 Chicago, IL 60606-7295 (312) 353-1352 (312) 353-3017 FAX	Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin
Regional Inspector General Southwest Region 101 S. Main Street Room 324 Temple, TX 76501 (254) 743-6565 (254) 298-1373 FAX	Arkansas, Louisiana, New Mexico, Oklahoma, and Texas
Regional Inspector General Great Plains Region 8930 Ward Parkway, Suite 3016 Kansas City, MO 64114 (816) 926-7667 (816) 926-7676 FAX	Colorado, Iowa, Kansas, Missouri, Montana, Ne- braska, North Dakota, South Dakota, Wyoming, and Utah
Regional Inspector General Western Region Suite 225 75 Hawthorne Street Suite 200 San Francisco, CA 94105-3920 (415) 744-2851 (415) 744-2871 FAX	Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Territory of Guam, Trust Territories of the Pacific, and Washington

**15-1S6 Supplement --- Additional Report Distribution Requirements for Non-DoD Organizations**

ORGANIZATION	TYPE OF REPORT	SUPPLEMENTAL DISTRIBUTION (Note)	ADDRESS
All non-DoD	Forward Pricing, Terminations, Equitable Adjustment Claims, Systems, Incurred Cost	DCAA-FLA-NONDOD	15-100
	Suspected Irregularity	DCAAI 7640.16	
AID	Annual Report CAC	13-706.7	13-706.7
	All Other Reports	15-107	10-905a(5) 15-107
Dept of Commerce	All	15-109	15-109
DHHS	Proposals	15-111a(1)	15-1S3
	Closings	10-905.a(4)	15-1S3
	All Other Reports	15-111a(2) & b	15-1S3
Dept of Interior	All	15-112	15-112
Dept of Transportation	All	15-114	15-1S4
EPA	All	15-116	15-116
Dept of Agriculture	All	15-108	15-1S5
Dept of Homeland Security	Internal Controls, CAS Compliance, Cost Impact Proposals, Post Awards	15-120	15-120

Note. The general DCAA policy for addressing audit reports is stated in 10-207. Supplemental distribution requirements specified by the non-DoD organizations are referenced in this column.

## 15-200 Section 2 --- Contract Audit Coordinator (CAC) Program

### 15-201 Introduction

This section sets forth the policies and procedures applicable to the Contract Audit Coordinator (CAC) Program. It also provides guidelines for their implementation by field audit offices.

### 15-202 Policy for Establishment

a. A CAC program may be established and implemented as stated in this section for designated (1) larger multi-segment contractors; (2) Government-owned, contractor-operated (GOCO) plants; or (3) other groups of contractors operated as an integrated complex or engaged in a major procurement program or in furnishing the same or similar services or end items to the Government, e.g., shipbuilding or aircraft jet engines.

b. When there is a major organizational segment of a contractor's overall corporate structure that consists of a group of subordinate segments under common organizational control, which are relatively independent and have significant auditable Government business, a Group Audit Coordinator (GAC) may be established. There should be sufficient contract audit issues, usually unique to the group and normally different from the rest of the corporation, which require coordination among a number of FAOs. Further, there should be a contractor representative available at this group level that can speak for the group and is authorized to resolve issues.

c. Where establishment of a GAC is requested and approved, the DCAA organizational designation of the auditor cognizant of the parent level operations will vary depending on the circumstances. If other segments within the company's organization have sufficient audit requirements, a CAC at the corporate level would be appropriate; if not the position may be a Corporate Home Office Auditor (CHOA).

d. The guidance contained in 15-204 should be followed when establishing a GAC, and all the CAC Case Files required by 15-211 will be maintained at the GAC level, including distribution to Headquarters. All other portions of this guidance should be followed as applicable to the GAC.

e. The program will apply to all locations of each designated contractor or specific group of contractors. It will cover contract audit matters subject to or requiring centralized direction, control, or resolution in such areas as accounting, pricing, audit programming, CAS compliance, and cost estimating policies and practices. In each case, the extent of coordination will be determined by the specific circumstances.

f. Assignment and performance of the coordination duties described herein should be considered an identified part of supervisory and administrative responsibilities at the regional or FAO levels.

### 15-203 Program Objectives

The overall objective is to increase the effectiveness of contract auditing at those contractor locations designated for inclusion in the program by such means as:

a. Establishing a focal point for each contractor or contractor group to coordinate contract audit matters and distribute information regarding activities of common concern and interest within the CAC/CHOA/GAC complex.

- b. Facilitating discussion and resolution of major audit problem areas with corporate or group level personnel.
- c. Establishing closer working relationships among audit personnel and responsible contract administration officials in the evaluation of price proposals and negotiation, administration, repricing, and settlement of contracts and subcontracts.
- d. Promoting consistency in the audit treatment of incurred and estimated cost representations and implementation of CAS.
- e. Coordinating with procurement offices on contract provisions affecting accounting and finance.
- f. Establishing coordinated audits where appropriate.

### **15-204 Designation of Audit Coordination Office**

- a. Regional directors will submit recommendations to Headquarters, ATTN: P, for the establishment of a CAC complex where such action is in consonance with the policy and objectives stated in 15-202.
- b. A regional office or FAO will be selected as the audit coordination office for each CAC complex in accordance with the following guidelines:
  - (1) For multi-segment contractors, the FAO having the predominant audit workload or a major workload will ordinarily be selected. Proximity to the contractor's home office will also be considered.
  - (2) For other complexes, the CAC function will be assigned to the regional or field audit office which has responsibility for one or more of the larger contractor(s) performing on the major program. Proximity to the key procurement or contract administration office(s) will also be considered.
- c. When a CAC complex is authorized by Headquarters, the regional director will notify all interested DCAA regional and field offices, as well as all applicable Government procurement and contract administration offices, of the name of the CAC and his/her office location. Also inform the principal representative(s) of a multi-segment contractor of the establishment of the CAC and the objectives of the program. Notification of the establishment of a CAC complex for GOCO plants or other groups of contractors need not be furnished to the contractors involved.

### **15-205 Responsibilities of the CAC**

The responsibilities of the designated contract audit coordinator (CAC) will include but are not limited to:

- a. Coordinating the contract audit activities of applicable FAOs as required to accomplish the program objectives, and formulating the annual CAC program or plan of operation.
- b. Acting as the contact point for discussions with contractor officials in corporate and divisional offices on such matters as:
  - (1) Management policies and practices, including proposed changes thereto, having cost implications. These may involve relocation of operations, establishment of a new division, change in organizational structure, new types of products or contracts, and similar matters which would be of significant concern to cognizant auditors at the contractor's other plants or divisions (see 1-502 on change of FAOs).

(2) Inconsistencies and weaknesses in cost accounting procedures and practices, estimating methods, or indirect cost allocation procedures particularly those which are common to more than one division.

(3) Compliance with CAS Board rules, regulations, and standards (see Chapter 8).

(4) Treatment of inter- and intra-company transfers or billings.

(5) Access to the contractor's accounting, operating and statistical records, current and prospective budgets, operating and financial statements, internal audit reports, corporate minutes, operating committee minutes, and working papers and documents providing the basis for corporate managements' certifications and disclosures pursuant to the Sarbanes-Oxley Act of 2002.

(6) Questions on the contractor's local practices and procedures affecting cognizant auditors at other locations and requiring consultation or resolution at a higher management level.

c. Notifying cognizant auditors at the respective contractor locations of the results of discussions held and actions taken concerning any of the matters covered above; also advising such auditors on proposed or established changes affecting the contractor's accounting, pricing or estimating procedures, and other changes or management decisions having a bearing on contract audit activities.

d. Coordinating with cognizant auditors to promote consistency of audit treatment of sensitive and controversial elements of cost such as research and development, advertising, selling expenses, pension and retirement plans, compensation (see 5-803.2) and recruitment expense.

e. Coordinating with cognizant auditors to promote consistency and uniformity of audit approach by:

(1) providing them with complete details concerning special audit procedures, techniques, and programs which may be usefully applied at their assigned locations,

(2) alerting cognizant auditors of problems at other locations which may exist at their assigned locations,

(3) informing cognizant auditors of the details of problem resolution achieved at other locations that may also be applicable at their assigned locations, and

(4) advising cognizant auditors of action taken on problems referred to the audit coordination office for resolution.

f. Furnishing guidance for the scheduling and performance of the annual (historical) home office audit, and home office or other intracompany audits required for forward pricing.

g. Ensuring distribution of pertinent home office reports, and the results of the reviews of the corporate minutes and tax returns to each FAO within the CAC network (3-104.16); and ensuring that the contractor's corporate annual report is made available to FAOs within the network, the CAC's regional office, Headquarters, Special Projects Division (PSP) and the Field Detachment.

h. Reviewing quarterly SEC filings and accompanying notes. Items to consider when reviewing the SEC filings include the disclosure of off-balance sheet arrangements and related party transactions in the Management's Discussion and Analysis (MD&A) section, the report of management on the company's internal control over financial reporting, and the independent auditor's attestation report on management's assessment of the company's internal control over financial reporting. If the filings or financial statement notes identify any relevant areas of risk, the CAC should review the information and related supporting

documents and provide the results of the review to the applicable FAOs in the CAC network.

i. Coordinating with cognizant auditors, contracting officers, and other responsible officials, as appropriate, in the resolution of general questions of reasonableness of costs generated by divisions or affiliates of the contractor.

j. Assisting departmental negotiators by coordinating with cognizant auditors on:

(1) Timely issuance of indirect cost audit reports.

(2) Consistency in audit presentations and explanations for questioned costs.

(3) Uniform audit position and rationale on similar items questioned at different locations.

(4) Attendance at company-wide indirect cost negotiations.

k. Cooperating with procurement and contract administration personnel in performing contractor-wide studies and issuing reports to assist in increasing the effectiveness of procurement and in achieving consistency in pricing and costing.

l. Developing coordinated objectives or programs for the audit of selected functional areas and indirect cost items that are common to several locations within the CAC network (see 15-206).

m. Responding to inquiries for information, special studies, etc. on sensitive items or significant and common problem areas in the CAC network. Such inquiries will ordinarily be made by Headquarters to the regional director with a copy forwarded directly to the CAC. Replies will be made by similar procedures. Inquiries and replies may be made by telephone when required by time limitations.

n. Evaluating reports submitted by network FAOs and consolidating, where appropriate, significant findings for presentation to appropriate Government and/or contractor officials involving major procurement programs for same or similar services or end items, e.g., GOCO plants. Such reports can present pertinent information on common problem areas and indicate recommended action to be taken by procurement and/or contractors to increase the financial effectiveness of contracts.

o. If the contractor is a Defense Industry Initiative (DII) signatory company, notifying the FAOs within the CAC network the extent of the contractor's DII participation and the results of the corporate office review of the contractor's DII questionnaire. The list of signatory companies is included in DII's Annual Report, which is available on DII's web site at <http://www.dii.org>. The DII Annual Report and other DII information are also available on the DCAA Intranet under the Policy and Plans, Special Projects (PSP) web page.

(1) DII's fundamental principles include establishing codes of ethics and implementing self-governance programs to monitor ethics and compliance with Federal procurement laws and regulations. The DII conducts annual activities supporting its objectives and initiatives. The DII Annual Report summarizes these activities and provides a discussion of the signatory companies' ethics and conduct practices. As part of the corporate office audit of the control environment and overall accounting controls, the CAC should query the corporate office contractor on its DII activities and furnish the CAC network a summary of the contractor's activities, if applicable.

(2) Each year DII signatory companies complete a questionnaire to document ethics activities and compliance with the DII principles. A copy of the questionnaire is included as an attachment to the DII Annual Report. As part of the corporate office audit of the control environment and overall accounting controls, the CAC should request from the contractor its responses to this questionnaire and the supporting documentation. The contrac-

tor's responses to the DII questionnaire and the supporting data are useful information to assist in assessing the contractor's internal control structure. Therefore, the CAC should review the contractor's responses to the questionnaire (and the supporting data) and provide the CAC network a summary of this review.

(3) The periodic notification to the CAC network FAOs should include an explanation of the contractor's DII related activities that pertain to each segment (as applicable). The information provided should be sufficient to assist the segment auditor to determine the extent of the contractor's DII participation for consideration during the annual assessment of internal controls.

## **15-206 Coordinated Audit Objectives or Programs**

### **15-206.1 Criteria for Multi-Segment Contractor CAC Complexes**

As respects multi-segment contractors, common audit objectives and programs are particularly applicable when the same policies and procedures are used throughout the CAC complex in such areas as accounting, estimating, personnel practices, purchasing, and implementation of CAS. In these and other instances the use of common audit programs promotes consistency of audit treatment of selected functional areas at all participating components, as well as assisting in the proper time phasing and consolidation of audit reports. In those multi-segment CAC complexes where common audit programs cannot be used, the CAC should develop and issue common audit objectives.

### **15-206.2 Criteria for Other CAC Complexes**

Where the CAC program is comprised of selected contractors involved in a major item procurement program or the production of similar or like end items, common audit programs cannot usually be adopted because of the differences in accounting, estimating, and other management systems existing among the different contractors. However, common objectives should be developed and must be sufficiently defined to produce audit results which are compatible for consolidated audit reports. Some examples of areas to be given attention in such CAC programs would include:

- (1) purchasing of common items,
- (2) use of the same subcontractors,
- (3) labor utilization,
- (4) make-or-buy programs, and
- (5) Government-furnished materials and equipment.

### **15-206.3 Procedures for Coordinated Audits**

Audit objectives and programs should be developed by the CAC with the cognizant auditors, and audits made accordingly. The following guidelines are applicable:

- a. Selection of the functions and indirect cost items to be audited will depend upon materiality, sensitivity, and the possibility that such may be questionable or unallowable.
- b. The CAC will establish on an overall annual basis the functions and indirect cost items selected for coordinated evaluation and the summary and consolidated reports to be issued.

c. If coordinated audit programs or detailed audit objectives, as appropriate, have been prepared, copies will be distributed to each participating FAO.

d. While the audits are in process, the CAC and participating FAOs should communicate with each other as necessary to clarify questions and problems which may arise.

e. Workshops may be arranged, subject to regional office approval, to discuss and resolve problems and significant questionable areas which cannot otherwise be disposed of.

f. Where indirect cost negotiations are involved, individual reports prepared by the assigned FAOs will be forwarded to the CAC for incorporation in a consolidated audit report covering items audited on a coordinated basis.

### **15-207 Responsibilities of Other Audit Offices**

Audit offices having responsibility for CAC network components shall follow a policy of full disclosure and positive support to the contract audit coordination program. These offices will:

a. Provide to the contract audit coordinator:

(1) Copies of any reports requested or otherwise considered pertinent for CAC network consideration or action.

(2) Complete data concerning any local problem areas that, in their opinion, may also exist at any other locations of the contractor or within the CAC network.

(3) Complete data concerning any local problem area that, while not believed to exist at other CAC network locations, cannot be resolved locally. Problems should not be submitted until local efforts for resolution have been exhausted. When forwarding unresolved problems, it is necessary that the cognizant auditors explain action taken at the local level and make recommendations for solution by the contract audit coordinator.

(4) Description of special audit procedures, techniques, or programs developed locally that resulted in more effective audit performance and that may be applied at other locations.

b. Perform, on a coordinated basis, audits of selected functional areas, indirect cost items, major item procurement program elements, etc., in accordance with the time schedules and/or audit programs established for the CAC network under 15-206.

c. Coordinate the following draft reports or correspondence (prior to issuance) with the CAC to ensure consistency within the CAC network and provide the CAC a copy of the report or correspondence when issued:

(1) Cost Accounting Standards draft audit reports containing audit exceptions;

(2) Operations audit draft reports for major contractors (see 14-504) with recommended cost avoidances;

(3) Restructuring costs draft audit reports; and

(4) Other correspondence (for example, advance agreements) or draft audit reports that involve issues that require CAC coordination to ensure consistency among the CAC network (as defined by the CAC). The CAC should provide its policy on coordination of draft audit reports and draft correspondence to the CAC network.

### **15-208 Communication Among Audit Offices**

a. Full and free exchange of information and thinking is essential to this program. To that end, the audit coordination office and the FAOs responsible for audit at the other con-

tractor locations are authorized to communicate directly with one another in respect to the types of matters described above. Such communication may be through the media of telephone, correspondence, small workshops or visits, as appropriate. The CAC is encouraged to pursue the availability of contractors' tele/video conferencing facilities as a means of communication if possible.

b. Communications between audit offices on problem areas or interrelated audit matters should not be delayed pending the holding of a contract audit coordination conference. They should be initiated as soon as the need is recognized, and should be continued thereafter, on a day-to-day basis as required, to effect resolutions of problem areas.

## **15-209 CAC Conferences**

### **15-209.1 Objectives of Conferences**

In addition to the normal and regular communication channels provided above, conferences of cognizant auditors of a multi-segment contractor or groups of contractors will be held to evaluate mutual problems. These conferences:

- (1) serve as a means for the dissemination of information and the exchange of experiences,
- (2) enable conferees to reach common understandings and crystallize unresolved problems, and
- (3) result in agreement on actions to be taken.

### **15-209.2 Planning and Conducting CAC Conferences**

a. Conferences will be planned and held as required, in coordination with the cognizant regional office. Approval for holding conferences and workshops must be obtained from Headquarters, ATTN: DX, at least 45 days before the date of the planned conference. (The approval requirement does not extend to the conduct of routine operational meetings between CAC and DCE staff members to address specific issues. Moreover, the participation by the CAC and his or her key supervisor in CACO or DCE conferences, when DCAA is not jointly holding and planning the conference, will be left to the discretion of regional management.) If attendance and participation in a CACO, DCE or other conference extends to employees from more than one region and if the total number of DCAA employees is more than four, approval for attendance should be requested as if the conference were being held by DCAA. A copy of the request should be concurrently provided to Headquarters, ATTN: PSP. The request for approval must include the following: a draft agenda (15-209.2.d); specific requests for Headquarters participation in agenda topics, if desired; justification for a location other than the Corporate Office, if applicable; and a completed DCAA Form 1100-1(EF) [MRD 06-DX-005(R) dated May 4, 2006].

(1) DX will provide the requestor notification, within 10 business days, on whether the conference has been approved as proposed; approved with changes; or disapproved for reasons stated in the notification.

(2) Normally a CAC conference should be scheduled at least once every two years; if other considerations indicate a longer interval, the regional director and Headquarters CAC program manager should be appropriately advised.

b. Invitations to participate in conferences will be extended to the Defense Corporate Executive (DCE) or the corporate ACO (CACO), procurement personnel, and audit representatives from non-defense audit agencies, such as NASA, having a significant audit interest. However, the total number of conferees should be kept to a practical minimum. To facilitate a productive concurrent consideration by different audit and/or procurement representatives, separate workshop sessions may be scheduled at the same time as part of the conference proceedings. A separate session for audit personnel only should be considered in preparing the agenda. Topics to be considered for presentation during auditor-only sessions include procurement support problems, and audit techniques employed at various contractor locations that resulted in improved audit effectiveness or significant audit findings. A summary report of each workshop should be furnished to the conference participants.

c. Contractor representatives may be invited to address the conferees and engage in discussion of matters of mutual interest. Their participation will be limited to specific sessions devoted wholly to this purpose.

d. The CAC should prepare a draft conference agenda on the basis of day-to-day knowledge of CAC activities and information solicited from FAOs on appropriate topics. The draft agenda should be time-phased, incorporate a concise description of each topic showing its scope and applicability, and describe any problems for discussion by participants. Before release of the agenda, an advance copy will be submitted for regional office approval. The CAC will generally serve as conference chair.

e. Recommendations for action to resolve problem areas will be developed during the conference. Where applicable, each such recommendation should be assigned a due date for its implementation. If the conferees cannot agree on a solution to a problem, the matter should be submitted to the appropriate regional directors for resolution (see 15-210).

### **15-209.3 Conference Minutes**

a. Within 30 working days after the close of the conference, the CAC will prepare the conference minutes and submit them to the regional office for review and approval. After review and approval by the regional office, the CAC will distribute the minutes to the following:

- (1) Regional office.
- (2) Other interested regional offices.
- (3) Cognizant auditors.
- (4) CACO, NASA, and other interested offices having representation at the conference.

b. The regional office will transmit the minutes (with appropriate comments, if any) to Headquarters, Attn: PSP.

### **15-210 Resolution of Problem Areas**

It is anticipated that most of the contract audit problems that may arise can be resolved through discussions between the contract audit coordinator and the contractor's key management officials, or by agreement among the cognizant auditors involved, subject to appropriate audit and procurement administrative approvals.

### **15-210.1 Resolution with Contractor**

In the event resolution cannot be achieved with the contractor, the audit problem will be referred by the contract audit coordinator to his/her regional office for disposition. Where resolution cannot be achieved at that level within a reasonable time, Headquarters, ATTN: PSP, will be apprised of all pertinent facts as a basis for appropriate action.

### **15-210.2 Resolution Among Auditors**

Disagreements between a contract audit coordinator and a cognizant auditor in common problem areas will be referred by the contract audit coordinator to his/her regional office. If the cognizant auditor is in another region, the regional office will take steps to resolve the disagreement with the regional office in which the cognizant auditor is located. If this cannot be accomplished, the interested regional offices will refer the matter to Headquarters, ATTN: PSP. Where appropriate, an Advice of CAC Case (see 15-211) will be used to accomplish this referral.

### **15-211 CAC Case Files**

#### **15-211.1 Establishing CAC Cases**

a. Contract audit coordinators will maintain appropriate records to document activities under the CAC program. A CAC case file will be established, at the contract audit coordinator's discretion, for (1) each separate problem area or action item submitted to the contract audit coordinator under the CAC program if resolution will not be accomplished in a relatively short time frame, and (2) any studies or inquiries undertaken under the monitorship of the contract audit coordinator, the scope of which is CAC complex-wide, or affects more than one location.

b. Examples of CAC case file subjects include:

- (1) difficulties concerning access to records;
- (2) local problems which cannot be resolved locally;
- (3) problems affecting more than one contractor division or plant;
- (4) problems requiring coordination or action at the corporate headquarters level;
- (5) problems requiring uniform action at the contract administration level;
- (6) CAS compliance issues, and
- (7) special studies or inquiries on corporate accounting, pricing, and cost estimating policies and procedures.

c. Each CAC case file will contain all pertinent data on the matters and issues involved. Appropriate documentation will also be maintained for CAC activities or actions not made the subject of an individual CAC case file.

#### **15-211.2 Advice of CAC Case**

a. When a CAC case file is opened, the contract audit coordinator will prepare an Advice of CAC Case. The advice will show the name of the contractor, the date the case was established, and a control number consisting of the fiscal year and a consecutive series of numbers (for each fiscal year) beginning with one. The advice will include a statement of

the case, source of the case, action taken to date, and any action planned. It will be signed by the contract audit coordinator. Below the signature, the following statement will appear:

"Recipients of this advice are invited to submit suggestions for solution of the problem." Copies of the advice will be distributed to:

- (1) the cognizant regional office,
- (2) each of the other cognizant FAOs,
- (3) the CACO where appropriate,
- (4) case file, and
- (5) Headquarters, ATTN: PSP.

b. Supplemental Advices of CAC Cases may also be issued as required to present subsequent additional data and status information which the CAC considers should be distributed to the above recipients to keep them currently informed about the case.

### **15-211.3 Case Resolution**

When a CAC case is resolved, the contract audit coordinator will prepare an Advice of CAC Case Resolution, which will include the name of the contractor, the case control number, date the case was closed, and a statement of resolution. The advice will be signed by the contract audit coordinator and distributed as in 15-211.2.

### **15-212 CAC Information Files**

The CAC will maintain adequate files relating to the CAC network and activities for his/her own use and the use of participating FAOs, regional directors, DCAA Headquarters, and others as may be authorized. If the CAC maintains a web site, then information from these files may be posted on the CAC's password protected web site. Information posted on the CAC's web site should be kept current. The CAC information files should include as a minimum the following:

a. Contractor Organization

- (1) For multi-divisional CACs, location of the corporate office, and each operating division, plant and/or affiliate performing Government contracts.
- (2) For groups of contractors constituting a CAC network, a list showing the name and location of each contractor.
- (3) Location of each ACO and DCAA regional and field audit office cognizant of the individual offices or plants indicated in (1) and (2) above.
- (4) Organizational chart of each division or constituent contractor, including the names of key personnel.
- (5) Annual financial reports as available for each contractor or component within the CAC network.
- (6) Number of employees for each of the locations shown in (1) and (2) above.
- (7) For multi-segment contractors, major product lines and services by division or plant as applicable.
- (8) For multi-segment contractors, annual (calendar or fiscal year) volume of sales by office, division or plant, and if available, amount and percentage of Government business for each.

b. Policies and Procedures

Access to corporate or institutional policies and procedures including those applicable to each contractor, GOCO plant, or division in the CAC network.

c. Plans, Programs, Reports, etc.

(1) Annual CAC program or plan of operation.

(2) Common audit programs, audit objectives, and unusual audit programs of applicable FAOs.

(3) Major audit reports submitted by the CAC and applicable FAOs. (These include reports on functional areas, surveys, indirect costs, significant pricing proposals, and non-compliance with CAS.)

(4) Reports on GAO reviews and procurement surveys, and other non-DCAA reports.

d. Correspondence and Communications

(1) Minutes of all CAC conferences and workshops.

(2) Trip reports covering visits to FAOs.

(3) Written comments of the CAC on the review of reports submitted by FAOs.

(4) All correspondence pertaining to the CAC program.

e. CAC Cases

Files pertaining to CAC cases designated by number and title (See 15-211.)

f. Other. The CAC information files should serve as a central collection and distribution point for information on:

(1) Access to all types of contractor records about which there is some difficulty or question from time to time.

(2) The status of completion of corporate-wide audits where common programs are in use.

(3) Changes or proposed changes in management policies and practices having cost implications.

(4) Current practices in estimating methods, overhead allocation methods, CAS, IR&D costs, advance agreements, pension plan management, insurance on plants, intra-company cost transfers, and other areas common to more than one office, division, or plant.

(5) Specific areas which may afford special opportunity for achieving contractor-wide or group-wide cost reduction and consistent audit treatment.

## 15-300 Section 3 --- Financial Liaison Advisory Services

### 15-301 Introduction

a. This section provides policies and procedures applicable to the performance of the DCAA Financial Liaison Advisor (FLA). Financial liaison covers advisory audit services that are offered to DoD procurement and contract administration offices to assist them in achieving the objectives of sound contracting by providing onsite accounting and financial advice to contracting officers, negotiators, and buyers.

b. GAGAS prohibits DCAA from auditing its own work or providing nonaudit services in situations where the nonaudit services are significant or material to the subject matter of audits (GAGAS 3.22). These standards also require audit organizations to be free from external impairments to independence both in appearance and in fact (GAGAS 3.10). By limiting the advisory services they perform to those in 15-304, FLAs will avoid even any appearance of violating the GAGAS independence standards.

c. The FLA is responsible for:

(1) facilitating effective communication and coordination between procurement officers and auditors;

(2) providing advice to the procurement office in connection with contractors' cost representations and related matters, in consultation with the cognizant FAO;

(3) providing to DCAA information regarding specific awards, trends in the type and volume of awards and other data impacting on immediate or long-range DCAA responsibilities; and

(4) providing DCAA management with information as to the adequacy, responsiveness and timeliness of the advisory audit reports being submitted by field audit offices. See 15-304 for further description and guidance on the liaison services provided by DCAA financial liaison advisors.

### 15-302 FLA Authorization

a. DoD Directive 5105.36 (see 1-1S1 3.1 & 5.9) authorizes the Director, DCAA to provide accounting and financial advisory services to all DoD Components responsible for procurement and contract administration and to establish and maintain liaison advisors, as appropriate, at major procuring and contract administration offices.

b. Financial advisory services are provided onsite by FLAs working at the individual procuring and contract administration offices or offsite by FLAs located at DCAA Headquarters. Generally speaking, the onsite FLAs are located at:

(1) the major procurement commands with the most significant auditable contracting activity, or

(2) the procurement policy-making groups for the military services (see 15-303).

### 15-303 Onsite FLAs

#### 15-303.1 Audit Liaison Division (OAL)

OAL reports to the Assistant Director, Operations, and is responsible for (1) managing the Agency's Financial Advisory Services programs, and (2) directly supervising all FLAs. For those with access to the DCAA Intranet, information regarding OAL representatives

currently onsite at the major procurement commands, and contract administration offices, and major buying offices' activity codes and a cross-reference to onsite OAL representatives is available under Audit Tools.

### **15-303.2 Memorandum of Understanding (MOU)**

a. To ensure that the FLA services being rendered are genuinely useful and effective and that there is no misunderstanding as to the nature of these services, DCAA enters into memorandums of understanding (MOUs) with those buying commands that can support/justify a full-time FLA. The MOU represents general agreement on the available services and facilities to be provided the FLA. It also represents a commitment by both parties to cooperate in the exchange of information to resolve procurement-related problems.

b. Each MOU is signed by DCAA's Assistant Director, Operations, and by the responsible official at each of the FLA locations. It is a working document without an established effective period, and as such can be amended at any time. Questions regarding the MOU may be directed to the Chief, Audit Liaison Division (see liaison information at the DCAA Intranet site under Organizations).

## **15-304 FLA Services**

### **15-304.1 General**

The onsite FLA is DCAA's principal point of contact at the procuring or contract administration activity to which assigned. The duties of the FLA cover a broad spectrum ranging from expediting the submission of advisory audit reports to on-the-spot consultation on complex financial and accounting matters relating to contract costs. The FLA duties also include focusing on improving the quality of information for decision-makers by providing confidence about the reliability and relevance of information. This information may be required by contracting officers throughout the contract negotiation process and the life cycle of the contract. To properly provide FLA services, the FLA must be independent. Many of the key services that the FLA performs are discussed in 15-304.3 to 15-304.14.

### **15-304.2 Proactive vs. Reactive**

Whenever possible, FLAs are to take a proactive role as opposed to a reactive role. The proactive role stresses the opening of lines of communication with all command activities including contracting officers, pricing directorates, legal staff, and all other acquisition officials requiring DCAA services. It also:

- (1) emphasizes the joint exploration of ways to improve coordination and the establishment of mechanisms to identify, evaluate and resolve issues;
- (2) recognizes that a strong relationship between DCAA and the acquisition and contract administration commands provides a clearer understanding of customer needs; and
- (3) facilitates DCAA's ability to provide quality, timely, and responsive audit and assurance services.

### 15-304.3 Professional Accounting and Financial Advice

The FLA advises procurement personnel on accounting and financial matters in areas of DCAA responsibility. This includes:

a. Advising procurement personnel on types of DCAA audit services and facilitating audit services with cognizant Field Audit Offices (FAOs).

b. Explaining or elaborating on the accounting and auditing principles, including CAS, underlying advisory audit report comments, findings, and recommendations and, when necessary, obtaining additional data, elaboration, or explanations from the field auditor.

c. Assisting procurement personnel in their efforts to obtain specific cost information when an audit of a contractor's proposal is not required (see 9-107) such as in below threshold proposals.

(1) FLA assistance in obtaining such information (e.g., indirect cost rates, labor rates, loading factors, etc.) from the cognizant DCAA field audit office (FAO) may be necessary and is usually beneficial when a contracting officer is experiencing difficulty:

(a) contacting the cognizant DCAA FAO,

(b) obtaining the requested data in a timely manner, or

(c) obtaining the requested data because of its connection with some unusual or controversial matter.

(2) FLAs may advise on the types of contractor data that the contracting officer might request from the contractor to support direct labor base rates, indirect rates, pools and bases, loading factors, and other cost elements.

d. Providing advice regarding reports on contractors' accounting and estimating systems in consultation with the cognizant FAO.

e. Advising the contracting officer on the results of audit as he/she prepares for the negotiation, after an audit report has been issued and in consultation with the FAO.

f. Facilitating the attendance of field auditors at the negotiation conference, and if requested by the FAO, participating in the negotiation to support the DCAA findings. (Also see 15-304.6.)

g. If an FAO is not able to attend negotiations, the FLA will provide assistance only with direct coordination with the FAO when discussing the treatment accorded costs in negotiations in which an audit report was issued.

h. Advising the contracting officer on matters relating to DCAA's postaward audit reports, and coordinating on requests for followup audit effort on postaward audit findings.

i. Providing counsel and any necessary coordination where a contracting officer is planning to issue a request for audit on only a part of a contractor's price proposal.

j. Attend government only meetings to address general issues and problems affecting DCAA's relationship and work with acquisition and contract management personnel; such as barriers to accomplishing audits caused by the contractor, proposals inadequate for audit, due date extensions, etc.

k. Facilitate coordination between FAOs and Command on issues related to billing, Wide Area Work-Flow (WAWF) and contract close-out procedures.

### 15-304.4 Coordination of Requests for Audit of Price Proposals

a. The FLA is available to provide procurement personnel with information regarding the DCAA field audit office to which a copy of the request for field pricing support should

be sent, and the type of audit they request based on the information they require. This is to assist contracting officers in using language that clearly identifies the specific information that is desired. This should be done in consultation with the cognizant FAO to ensure any areas of risk for that contractor are provided to the contracting officer for consideration in developing the request.

b. Direct telephonic communications between procurement personnel in the larger buying offices and the cognizant field auditors may result in multiple requests from various negotiators for the same data or requests for data already available in the files of the FLA; requests for data with unrealistic time deadlines; and requests for data to be furnished by telephone which is of such significance or magnitude that it should be furnished only by means of an advisory audit report. Also, direct telephonic communications may result in misinterpretation because the negotiator may not readily understand what the data means. Consequently, when a field auditor receives a telephonic request for data, questionable or problem areas which cannot be resolved at that time should be promptly referred to the FLA who will obtain any needed clarification or background information from the requestor (see 9-107).

c. The FLA should provide the procuring activity with the proposal adequacy checklist and provide general advice on the application of the checklist. The FLA should make arrangements with the procurement activity to be furnished a copy of each request for field pricing support as well as any notices of date adjustments for the auditor's submission of audit report to the Plant Representative/ACO.

d. When the buying office changes product requirements, quantities, or specifications while an audit is in process, the FLA should confer with the contracting officer to assess the impact of the changes on the current proposal. The FLA should then confer with the field auditor on the advisability of continuing the current audit or suspending audit until a revised proposal is submitted. Where appropriate, arrangements may be made for supplemental audit reports.

e. Responsibility for the submittal of a timely audit report rests with the cognizant field auditor; responsibility of the FLA in this matter is to facilitate the use of audit service. The FLA shall look into any inquiry made either orally or in writing by the procuring activity where it is stated that a specific advisory audit report is overdue or was not received on a timely basis. On each such matter the FLA shall discuss the matter with the FAO and the procuring activity in an effort to assure timely reporting or more practicable due dates for future requests.

#### **15-304.5 Counsel on Advisory Audit Reports**

a. The FLA is available to discuss audit reports with procurement personnel. This can involve providing interpretation and explanation of the accounting and auditing principles underlying the findings, comments, and recommendations set forth in the report or obtaining from the cognizant field auditor additional information or further elaboration and explanation regarding particular cost elements. DCAA offices will provide the onsite FLA one copy of each advisory audit report when it is issued (see 15-307 and FLA information available at the DCAA Intranet site).

b. The FLA will pursue all leads and concerns raised by the management at the commands being supported, and those requiring the attention of DCAA field and/or Headquarters management should be elevated accordingly. A file should be maintained on problem

areas in order that recurring matters indicating a trend or other condition requiring action at FAO, regional or Headquarters level may be communicated by the FLA to the appropriate office. Arrangements should be made with the procurement office to provide appropriate notification of problems and problem areas to the FLA, preferably by direct written communication or by copy of a PNM in which the matter is set forth.

#### **15-304.6 Arranging for DCAA Participation in Negotiation Conferences**

a. The FLA should arrange to obtain advance information concerning impending contract negotiation conferences in instances where an audit report has been issued. Encourage the contracting officer to request DCAA attendance at negotiations. This could involve the prenegotiation conference attended only by Government representatives, the formal negotiation conference with the contractor, or both. When such attendance is required, the PCO's request to the field audit office should be transmitted promptly to provide maximum time for preparation and travel arrangements. Where the PCO consistently fails to solicit necessary field auditor attendance, the FLA should resolve the problem in accordance with 15-402.1.

b. Arrangements for auditors' participation in negotiations should be coordinated with the DCAA FLA. Field auditors should inform the FLA of any requests for attendance at negotiations received directly from contracting officers, and discuss any question concerning the necessity or duration of his or her attendance. Field auditors should notify the FLA upon arrival at a supported procuring activity to attend a negotiation. The negotiations in which field auditors are invited to participate are usually large-dollar, complex procurements, and it may be advisable for the FLA to attend with the field auditor, especially where continuity is needed because negotiations are expected to extend over a number of days or weeks at both the contractor's location and the procurement office and it will not be possible for the field auditor to be present at all sessions.

c. In those cases where a field audit report was issued and the field auditor is not able to attend, the FLA can attend negotiation meetings and conferences when requested by the contracting officer, and should provide whatever accounting and audit advice and assistance is required in direct consultation with the cognizant FAO.

#### **15-304.7 Procurement and DCAA Policy and Procedures**

The FLA will explain and clarify DCAA policy and procedures to the procuring activity to which assigned, when requested. In turn, when the FLA becomes aware of new or revised policy or procedures that impact upon DCAA operations, the FLA will advise Headquarters, the Audit Liaison Division.

#### **15-304.8 FLA Support of Major Defense Systems Procurement – Liaison Services**

a. DoD Directive 5000.1, DoD Instruction 5000.2, and the Defense Acquisition Guidebook set forth the policies and procedures and establish specific requirements and responsibilities for acquiring major defense systems. As stated in the Directive, the policy of DoD is to assure that the acquisition process is timely, efficient, and effective. When providing liaison services the FLA should make a direct offer to assist the program manager for the major defense systems procurement during the initial stages of the program as well

as after contract award. Maintaining good communications and close working relationships with the program manager will help facilitate the acquisition process.

b. Although not intended as a complete listing, the types of liaison services provided by the FLA on major defense system procurements will generally include those summarized below:

(1) To act as the facilitator and liaison for DCAA on matters requiring contact with the contracting officer, project manager and their staffs.

(2) To recommend to the procurement activity, when appropriate, that the request for proposal (RFP) should require the contractor to:

(a) Disclose any deviations from its normal accounting and/or estimating procedures used to prepare the proposal.

(b) Identify the dollar impact of such deviations.

(c) Identify and explain any anticipated differences between the accounting for costs to be incurred under the proposed contract and the accounting methods and procedures reflected in its proposal.

(d) Prepare and furnish for audit historical unit cost trend studies and analyses of experienced labor and overhead and G&A expense rate data.

(3) To assist the procurement office in understanding the accounting and financial aspects of the contractor's submission in consultation with the FAO and in conjunction with an audit.

(4) To monitor the overall audit input, arranging the timing of field audit effort and reporting so that submissions coincide with the overall time schedules and requirements of the procurement office.

(5) To advise FAOs promptly of any unusual cost provisions in the RFP in order that appropriate coverage may be provided in the audit program.

(6) To advise FAOs of any special areas of audit coverage desired by the procuring authority and not detailed in the RFP; this may be especially important in a competitive situation.

(7) To facilitate discussions between the appropriate contracting official and the cognizant Prime FAO on the extent to which audits will be needed on major subcontract proposals.

(8) To maintain sufficient contact with the FAOs to monitor the timeliness of audit service, and arrange for any necessary extensions of scheduled report dates.

(9) To facilitate communications between cognizant FAO and requestor to explain the audit results.

(10) To arrange for any additional audit effort that may become necessary subsequent to the submission of audit reports. In these efforts, it is essential that the field audit offices are timely and completely responsive and that actual or expected delays are communicated promptly to the FLA in order that he or she may initiate appropriate action with the procurement office.

#### **15-304.9 Reserved**

#### **15-304.10 Auditors Role on Source Selection Evaluation Boards (SSEBs)**

a. FAR 15.300 prescribes policies and procedures for selection of a source or sources in competitive negotiated acquisitions. The objective of source selection is to select the

proposal that represents the best value to the Government, which may not be the lowest price. The Source Selection Authority (SSA) is responsible for source selection. In some instances there will also be a Source Selection Advisory Council (SSAC) which advises the SSA. The Source Selection Evaluation Board (SSEB) evaluates proposals and reports to the SSAC and/or SSA. The SSEB is comprised of contracting, legal, logistics, technical, and other expertise to ensure a comprehensive evaluation of offerors.

b. To avoid any potential independence issues, DCAA FLAs may not be a member of the SSEB. Such participation would constitute a nonaudit service. See 15-301 for further information on GAGAS independence standards when performing nonaudit services. FLAs may serve as advisors to SSEBs and provide support such as:

- (1) Advise on requirements that should be included in RFP Section L and M, including the criteria on the DCAA Adequacy Checklist;
- (2) Advise on the type of audit services available;
- (3) Explain the importance of requiring proposals to be adequate for audit;
- (4) Provide general advice on FAR and CAS applicability;
- (5) Facilitate audit of proposals, pre-award surveys of prospective contractors' accounting systems, and financial condition risk assessments; and,
- (6) Provide other types of FLA functions as described in other sections of CAM 15-300.

c. Source selection information is confidential in accordance with FAR 3.104-3 and 3.104-4. Source selection information may not be shared with anyone not appointed to the SSEB. The FLA may be requested to sign a non-disclosure agreement and may do so in accordance with CAM 1-403.5.

d. DCAA field auditors will not be members or advisors to SSEBs, but Field Audit Offices will provide requested audit services in support of SSEBs. When performing audit efforts related to an SSEB, auditors will not be required by the SSEB to sign a non-disclosure agreement. In accordance with CAM 1-507, DCAA auditors are required to perform audits in such privacy as warranted under the circumstances, and provide all necessary safeguards to contractor confidential data at all times.

#### **15-304.11 Distribution of Contract Documents and Price Negotiation Memorandum (PNM)**

a. The FLA will assist procurement personnel in the identification of FAOs to which contract documents should be sent.

b. CAM 4-108b states the procedure to be followed by field auditors in the event a copy of the PNM is not furnished by the contracting officer within a reasonable time after contract negotiation. Upon receipt of a copy of the FAO's follow-up request, the FLA has the responsibility to follow up until the PNM (or Command equivalent document such as Business Clearance, Contract Modification) is distributed. Preparation and distribution of the PNM is the responsibility of the PCO. However, when requested by the PCO, the FLA may assist in clarification of matters related to audit input and accounting terminology. Although it is not desired that the FLA receive PNM's, he or she should try to arrange that the procedures of the procurement activity provide (1) direct distribution of a copy of the PNM to the cognizant auditor, and (2) notification to the cognizant FAO in those instances where no PNM will be prepared, i.e., when the procurement was cancelled, the offeror was unsuccessful, etc.

**15-304.12 Participation in Training Sessions, Seminars and Review Groups**

The FLA 's participation in informal training sessions and seminars of the procurement or contract administration office is encouraged since it affords an excellent opportunity to elaborate on DCAA services available to the procurement office.

**15-304.13 Assistance in Preparing Replies to Government Accountability Office (GAO) Reports**

Procurement and contract administration activities will on occasion request the assistance of the liaison auditor or the financial advisor in preparing replies to GAO reports. FLAs may only verify the financial matters relating to DCAA audit reports. This should be done in conjunction with the cognizant FAO. The FLA and FAO should follow guidance and procedures in 1-204 regarding interaction with the GAO.

**15-304.14 General**

The FLA should be continuously alert to major items of audit workload originating at the procurement office. When it is learned that a major proposal will require audit evaluation in the near future, the appropriate resident or branch office(s) should be informed. Along these same lines, the FLA should assist field auditors by providing information on developments affecting contracts under their cognizance, facilitating communications with FAO and procurement personnel on audit issues, and coordinating with procurement personnel in establishing the agendas for negotiation conferences so that the field auditor's time at the conference is not unduly extended.

**15-305 Financial Liaison Advisory Services to Contract Administration Offices**

a. Many of the FLA services provided to the procurement centers are also available to Administrative Contracting Officers (ACOs) and other procurement-support personnel at the contract administration offices (CAOs). However, since DCAA field audit office (FAO) managers are often co-located or housed in close proximity, and in daily contact with their CAO counterparts, it is generally unnecessary to assign FLAs to the CAOs.

b. Meetings should be held periodically between the local management of the DCAA FAO and CAO to discuss issues of common concern, and to determine whether DCAA and the CAO could benefit from new or improved financial liaison advisory services. When this appears to be the case, the FAO responsible for the CAO should not hesitate to provide the services. If there is no DCAA FAO in close proximity to the CAO, the matter of financial liaison advisory services should be brought to the attention of the appropriate DCAA regional office.

**15-306 Financial Liaison Advisory Services for Sensitive Compartmented Information (SCI) and Special Access Programs (SAP)**

a. As a result of their special security requirements, SCI and SAP procurements require unique financial liaison advisory services. To provide these services, DCAA has estab-

lished an FLA team referred to as the Special Programs Team. The team reports to the Chief, Audit Liaison Division (OAL).

b. DCAAM 5110.1, Chapter 6.2 – Field Detachment, sets forth DCAA's operating procedures for supporting SCI and SAP efforts. The Special Programs Team FLAs are subject to these same procedures to ensure that they are properly trained to handle SCI and SAP efforts. Questions relating to DCAA's general support of SCI and SAP efforts may be directed to the Senior FLA - Special Programs.

### **15-307 Audit Report Distribution to FLAs**

a. As provided for in various sections of Chapter 10, the FLAs (see FLA and office information available at the DCAA Intranet site) are to be included in the distribution of all DCAA audit reports resulting from forward pricing audits (including rate audits), post-award audits, terminations, and claims.

b. This requirement does not mean that the FLAs should be limited only to the types of reports noted above. Special consideration should always be given to providing the cognizant FLA with a copy of any audit report that may require, or could benefit from, FLA coordination or involvement. However, prior to transmitting non-listed audit reports, first coordinate with the FLA to determine if there is a need for a copy of the report.

## **15-400 Section 4 --- Auditor Support of a Negotiation Conference**

### **15-401 Introduction**

This section contains procedures and guidance on audit support of negotiation conferences. It is DCAA's policy to support contracting officers at negotiations where DCAA has issued an audit report on the contractor's submission (e.g., price proposals, incurred cost submissions, termination claims), especially for complex submissions with significant audit issues. While this section primarily addresses negotiation conferences for price proposals, DCAA is available to support contracting officers at any type of negotiation; e.g., those involving incurred costs or terminations, as well as price proposals. Attendance at Government only pre-negotiation meetings when requested by the contracting officer to discuss audit report results is also encouraged. Providing support and technical advice based on the auditor's technical knowledge and expertise to help the contracting officer understand audit report results does not impair auditor independence. Answering questions about audit rationale/computations or giving advice regarding contractor rebuttals to reported results helps the contracting officer understand audit conclusions.

### **15-402 Auditor Attendance at a Negotiation Conference**

#### **15-402.1 Notification of Availability of Audit Assistance**

In routine audits, auditor availability for negotiations will be presumed. If auditor attendance is considered critical; for example, due to the complexity or controversial nature of the matters presented in the audit report, the audit report should contain a statement recommending that the contracting officer invites DCAA to attend the negotiation conference (see 10-210.5e(2)(f)). See 15-304.6 for the FLA's responsibilities related to arranging for DCAA participation in negotiation conferences. When buying offices continually fail to solicit necessary auditor attendance at negotiation conferences, the FLA, together with the regional directors, should confer with the head of such activities. Refer significant unresolved problems to Headquarters, Attention: O, for discussion at higher procurement levels.

#### **15-402.2 Request for Auditor Attendance at the Negotiation Conference**

Field auditors should inform the FLA of any requests for attendance at negotiations received directly from contracting officers (see 15-304.6). On receiving the request for audit assistance, the FLA will discuss the report with the contracting officer to determine the extent of the assistance required. To the maximum extent practicable, the FLA should render the required assistance through his or her own office, particularly where it involves only an explanation of accounting principles or a limited amount of information which can readily be obtained by contacting the audit office which performed the audit. Copies of selected audit office working papers may be provided to efficiently satisfy an inquiry. The copies will be marked with appropriate protective markings based on the information contained therein and consistent with the audit report (see 10-205). Where, however, the assistance involves extensive referral to audit working papers or

presentation of information on conduct of the examination, the FLA will arrange directly with the audit office for auditor attendance at the negotiation conference (see 15-304.6). Any requests for auditor attendance which will involve more than two weeks should be coordinated with the regional office.

### **15-402.3 Subcontract Negotiation Conferences**

Arrangements may be made for a DCAA auditor who performed a subcontract audit to attend a subcontract negotiation conference only when all negotiating parties concur. Participation should be limited to explaining the audit procedures performed and the results of examination. The conduct of subcontract negotiations is the responsibility of the upper-tier contractor.

## **15-403 Advisory Audit Counsel in the Negotiation Conference**

### **15-403.1 Negotiation Process**

The negotiation of a fair and reasonable price is a complex process involving consideration of many factors including:

- (1) actual costs and completion estimates;
- (2) the amount of profit or fee in relation to total cost, the complexity of the work, quality, efficiency, and ingenuity of the contractor's performance, and the technical and financial risk assumed; and
- (3) the competitiveness of the end price.

Costs constitute an important factor in the contract price negotiation and the discussions between the contractor and the contracting officer include the objective of arriving at a definitive agreement, to the maximum extent possible, on the amount of costs to be considered in the price. Definitive agreement on each element of cost may not always be possible because of honest differences of opinion or other considerations between the negotiating parties. As a result negotiation involves a give and take proposition and the contracting officer usually cannot negotiate a price which includes cost considerations exactly in accordance with the advisory audit report. In this situation, the auditor should advise the contracting officer on the extent and financial significance of any differences or considerations which exist. In connection with profit or fee, many of the other factors enumerated above that are considered in price negotiation, are also not subject to a precise determination. Such factors as the complexity of the work or the contractor's ingenuity are not generally expressed in dollar and cents terms but require judgmental evaluation of a broader basis. Accordingly, in some instances, a total end price may be negotiated without specific monetary resolution of all of the individual cost elements or other pricing factors involved.

### **15-403.2 Nature of Audit Counsel**

The auditor will provide support and technical advice based on the auditor's technical knowledge and expertise to help the contracting officer understand audit report results. Providing the contracting officer this type of support and advice does not impair auditor independence and will assist in the conclusion of a fair and reasonable price agreement

with the contractor. Whether in actual attendance at the conference or through support from the audit office, the auditor may provide the following types of support:

a. Explain the audit report recommendations on the costs of the particular items in the contractor's proposal. Copies of appropriate supporting working papers may be provided to help answer a request in an efficient, economical, and effective manner, especially when auditor attendance at the negotiation conference is not feasible. The copies will be marked with appropriate protective markings based on the information contained therein and consistent with the audit report (see 10-205).

b. Answer questions raised by conference participants relating to the scope of audit or the rationale for audit computations, determinations or recommendations. Appropriate references should be made to the factual information and documentation in the supporting working papers.

c. Provide technical advice regarding contractor rebuttals to audit results or recommendations.

d. Assist the contracting officer in understanding how any additional cost information/data the contractor may submit or any different considerations which it may allege during the negotiation conference impacts the reported audit conclusions. Auditors should support the contracting officer to the extent possible by providing advice on the additional data. This may include, for example, providing advice on the contractor's rationale for a revised estimate, verifying data to the contractor's books and records or other supporting data, or running various Government position scenarios using the data through audit report schedules and underlying spreadsheets, where appropriate.

e. The auditor should exercise judgment in determining whether a supplemental report is more appropriate in the specific circumstances. If the data is complex and/or represents a significant update to the audited proposal, and requires extensive review or analysis, the auditor would generally need to issue a supplemental report (see 10-214).

f. When a supplemental report is not issued, any documentation provided to the contracting officer of the work performed should be clearly marked to distinguish it from audit report results. For example, it should include a statement noting that the documentation contains advice provided in support of negotiations and does not represent audited data, nor a revised audit opinion. Nothing short of a supplemental report will result in a revised audit opinion.

### **15-403.3 Limitations of Audit Counsel**

As discussed in FAR 15.404-1(a)(1), the contracting officer has exclusive responsibility for ensuring that the final price is fair and reasonable. It is not appropriate for the auditor to provide in writing, or otherwise, an overall opinion on a "bottom-line" negotiation objective (but see 15-403.4 below).

### **15-403.4 Contracting Officer's Treatment of Reported Recommendations**

Circumstances may arise before or during a negotiation conference when the auditor believes the contracting officer has given inadequate or improper treatment to the audit recommendations in the advisory audit report. In such cases, the auditor has the responsibility to make his/her position clear to the contracting officer prior to the negotiation settlement. This should be accomplished with appropriate tact and objectivity at a time

when the contractor is not present. When the contracting officer fails to accept an audit recommendation and the auditor feels that this action has a significant or continuing impact on the reasonableness of pricing or contract administration and there is an opportunity for useful corrective action, the procedures outlined in 1-403.3 should be followed.

## **15-404 Documenting Auditor Support of Negotiations**

### **15-404.1 Auditor's Memorandum of Negotiation**

The FAO auditor should prepare a memorandum for the record (MFR) as soon as possible after attendance at a negotiation conference. In those cases where the FLA attends the negotiation conference without the FAO auditor (see 15-304.6), the FLA will prepare the MFR and provide a copy to the FAO. The memorandum will include **the audit report number and** basic identification data with respect to the contractor, the contract, personnel in attendance, etc.; information on the matters discussed during the negotiation conference; a summary of the action taken on audit recommendations; and the results of the negotiation. Where applicable, the memorandum should also cover advice the auditor provided to the contracting officer on additional data presented by the contractor (including copies of any documentation provided to the contracting officer of the work performed), and any other pertinent matters not covered in the audit report. If the contractor's proposal was revised during negotiations, indicate the extent to which the audit report is applicable to the revised proposal, or show a self-explanatory reconciliation. Comment on possible improvements in the audit report presentation, the extent of contracting officer acceptance of audit recommendations, the effectiveness of the contribution made by the auditor at the negotiation conference, audit problem areas disclosed by the negotiation, and other pertinent matters. If the FAO does not attend the negotiation conference but provides other significant support (e.g., by attending a pre-negotiation meeting or providing advice to the contracting officer on data provided by the contractor in anticipation of negotiations), the MFR should appropriately document the support provided (including copies of any documentation provided to the contracting officer of the work performed). **File the original memorandum and any supporting documentation in Livelink in the same folder with the official audit working paper files (see 4-407e(9)). Also file a copy of the memorandum in Livelink under activity code 49200 Negotiations and furnish a copy to the FLA.** In addition, the regional office will be furnished a copy of every memorandum documenting:

- (1) a settlement that is not supported by audit report findings or
- (2) unusually effective auditor participation.

### **15-404.2 Written Concurrence of Settlement**

Auditors are sometimes asked to affirm their concurrence in writing with positions negotiated by contracting officers. These negotiated positions frequently differ from audit report positions, as a result of both subjective and objective arguments raised by contractors at negotiations. When asked to provide such concurrence, the auditor should professionally decline. This is because the contracting officer has the authority to make flexible concessions without audit concurrence, as well as the responsibility to document the negotiations. (See 15-403.2d, for guidance on dealing with additional cost information furnished by the contractor.)

## **15-500 Section 5 --- Procedures for Actual or Potential Contract Disputes Cases**

### **15-501 Introduction**

This section identifies the responsibilities of field, regional, and Headquarters personnel. It outlines the reporting requirements for actual or potential board of contract appeals (BCA) cases and cases in other forums, such as the United States Court of Federal Claims.

### **15-502 Contracting Officer Decisions**

Their warrants authorize contracting officers to resolve claims by or against contractors related to contracts subject to the Contract Disputes Act. Contractors may appeal written decisions to agency boards of contract appeals or to the courts (see FAR 33.211). The Armed Services Board of Contract Appeals (DFARS Appendix A) hears most cases affecting DoD contract costs. Many BCA and court cases involve controversial items. Since appeal decisions often influence the treatment of these items in future years, DCAA has special interest in them.

### **15-503 Coordinated Support of Contract Disputes Activity**

a. Close communication, through established channels, between the FAOs, regional offices, and Headquarters is needed throughout the course of such appeals. Close communication with the Government trial attorney and with the contracting officer is also very important.

b. It is Agency policy to assist the Government trial attorney in accounting matters in all cases, whether initiated through an Agency finding or by other means. Audit support should fully respond to the actual needs of the Government trial attorney and may consist of comprehensive audit and accounting advisory services, accounting research applicable to the specific case, testimony relative to the audit report, or testimony as an expert on accounting and auditing matters. Providing assistance to the Government trial attorney includes providing assistance to other Government counsel who are supporting the litigation of the case.

c. Audit work is privileged when performed at the request of Government trial attorney in support of ongoing or anticipated contract litigation. The attorney work product privilege applies and it protects the auditor's advice from release or disclosure to the other party. Auditors must coordinate closely with Government trial attorney before performing litigation support work and during the performance thereof. Auditors must request and follow counsel advice on such matters as whether to affix the attorney work product legend on auditor documents, whether and how to discuss factual aspects of the ongoing audit with the auditee, and the restrictions on handling and use of the auditor's working papers and advisory reports or memos. The Government trial attorney may request that audit work be performed but they should not direct how such work is to be accomplished. If such direction occurs, the auditor should explain to Government trial attorney that DCAA will be fully responsive to the request for an audit evaluation, but that specific audit tasks needed for that evaluation will be determined by DCAA. If unsuccessful, the auditor in a positive, proactive manner should indicate he/she will timely

coordinate the request with DCAA management. Written clarification should be provided to the Government trial attorney after coordination with regional management and DCAA Headquarters (Policy and DL). An exit conference will not be held unless the Government trial attorney expressly approves it and its scope in writing (see 4-304.7).

## **15-504 Reporting Requirements for Contract Disputes Cases**

### **15-504.1 DCAA Contract Disputes Cases**

a. DCAA is responsible for evaluating all appeal decisions that have an impact on the allowability of costs under DoD contracts. Where such decisions appear to adversely affect the desired DoD policy, DCAA will recommend changes to the acquisition procedures through established channels. Headquarters has established a web-based application for real-time reporting to provide appropriate tracking of contract disputes cases. The policies and procedures for reporting contract disputes cases are outlined in DCAAI 7730.13. Reporting requirements are summarized in 15-504.2 and 15-504.3.

b. Actual cases have board or court docket numbers while potential cases have not yet reached that stage. Potential cases are those where the contracting officer has issued a unilateral decision advising the contractor of a time frame for appeal — 90-day appeal rights to the ASBCA or 12-month appeal rights to the Court of Federal Claims (FAR 33.211). The status or expiration of appeal rights for most potential cases can be tracked through DMIS. DMIS requires that after a contracting officer's unilateral final decision, the contractor's appeal rights must expire before reporting audit amounts sustained and the related net savings. In addition, even though a contracting officer's decision has not yet been made, there may be occasions when significant CAS or FAR cost principle issues are known to be in dispute and may result in litigation. The FAO should coordinate with the Regional Contract Disputes Coordinator (CDC) regarding the desirability of reporting such a potential case.

c. For reporting purposes, contract disputes cases (both actual and potential) will be designated either significant or routine. Significant cases requiring case summary information (see 15-504.2) are those where:

- (1) a Cost Accounting Standard issue is involved;
- (2) a Cost Principle issue is involved;
- (3) specific DCAA audit guidance is being challenged;
- (4) over \$50 million is in dispute, regardless of the issue; or
- (5) the case involves unusual or complex issues, e.g., the FAO has requested regional or Headquarters support or the case is externally sensitive as evidenced by major media attention or Congressional interest.

Cases which do not meet any of the five criteria identified above are considered routine and do not require input of case summary information. All cases should be included in the web-based application on a real-time basis (see 15-504.3.) This includes all cases involving a DCAA audit report and any additional disputes cases that the FAO is requested to support during the litigation process.

### **15-504.2 Significant Case Summary Reporting**

As soon as a significant, actual or potential, contract disputes case is identified based on the five criteria identified above, FAOs will input a new contracts dispute record including case summary information into the web-based application. The format for the case summary information is included within the web-based application. Items such as notices of deposition, actual depositions, memorandums for record, and trip reports concerning DCAA participation in the dispute proceedings should be provided to the regional CDC, and as appropriate, forwarded to the Headquarters' CDC program manager.

The case summary information should be updated for known or anticipated significant actions related to the dispute.

Both the FAO and the regional CDC are responsible for the accuracy and timeliness of case summary information. They should also make recommendations for DCAA counsel (DL) involvement, if warranted (see 15-507.)

### **15-504.3 Reporting**

The Inventory of Contract Disputes Cases and case summaries will be maintained on a real-time basis on the web-based CDC reporting system. The web-based CDC reporting system is available on the DCAA intranet under Organization, Headquarters, Policy (P), Accounting and Cost Principles (PAC); select the link to Contract Disputes Case Intranet Web Application. Upon the disposition of a case, the case record in the web-based application will be shown as closed. The regional CDC is responsible for the accuracy and timeliness of the information maintained within the web-based application.

## **15-505 Regional Contract Disputes Coordinator (CDC) Responsibilities in Contract Disputes Cases**

### **15-505.1 Evaluate Audit Position**

Regional CDCs will evaluate the audit position, working papers, supporting documentation, contractor's response or rebuttal, and other data to ensure that the case is well-founded. Appeals are time-consuming and expensive, so regional offices should make every effort to present the board or court with a clear, well-supported position. DCAA's position should include rebuttals to any known contractor arguments. Regional offices should recommend additional audit work if the existing documentation is inadequate. In such cases, the field auditor should advise the Government trial attorney if more time is required to develop the supporting data.

### **15-505.2 Technical Assistance**

Regional offices will furnish assistance to the FAO and Government trial attorney when necessary. Regional CDCs will help the field in developing cases. They will ensure that the auditor clearly understands the major points in the case, and that the trial attorney understands the accounting significance of these points.

### **15-505.3 Coordinate Government Accounting Witnesses**

Government trial attorneys sometimes request expert witnesses to testify in the areas of cost accounting standards, Government procurement regulations, generally accepted accounting principles, and generally accepted governmental auditing standards. These witnesses come from various sources, including Government, academia, public accounting and consulting firms, and industry. Regional offices will provide assistance to the Government trial attorney in locating appropriate witnesses. Most RAMs would qualify as expert witnesses in the various areas covered by contract audit. In some cases, FAO managers and field supervisors may qualify as expert witnesses.

### **15-505.4 Develop and Train Field Witnesses**

DCAA witnesses of fact (usually the auditor who performed the audit or the supervisory auditor) or expert witnesses (usually the RAM or RSPM) need to prepare for their roles. Government trial attorneys prepare witnesses for trial, but, occasionally, this preparation is brief and at the last minute. Whenever appropriate, DCAA should support the witness preparation process. After coordinating with the Government trial attorneys, regional CDCs should acquaint the field auditor witness with courtroom procedure, including simulated courtroom testimony. To familiarize themselves with the trial/hearing process, regional CDCs should attend selected board hearings or court trials in their regions.

### **15-505.5 Evaluate Field Support**

Regional CDCs should periodically evaluate FAO compliance with their responsibilities for the contract disputes program (see 15-506) to assure that FAOs are in compliance with Agency policy and to submit suggestions regarding possible improvements. The compliance program should assure active FAO contact with Government trial attorneys.

### **15-505.6 Real Time Case Summary Reporting**

Regional CDC's will oversee real time reporting of contract dispute case summaries (both initial and updates) for all significant cases and maintenance of the inventory of routine cases in the web based application as described in 15-504.

## **15-506 FAO Responsibilities in Contract Disputes Cases**

### **15-506.1 Release of Official Information in Litigation and Testimony by DCAA Personnel as Witnesses**

DCAA Regulation 5410.11, Release of Official Information in Litigation and Testimony by DCAA personnel as witnesses, requires a determination by the General Counsel or his/her delegate prior to the release of official DCAA information for use in litigation or the provision of DCAA personnel to be interviewed, contacted, or used as witnesses concerning DoD information. The authority to authorize the release of requested information

or authorize testimony of DCAA personnel has been delegated to the Chief Trial Attorney or other trial attorneys representing the Government in contract appeals proceedings before the ASBCA. Based on the nature of the contract disputes case, litigation requests will typically be processed through the attorneys representing the Government. Therefore, in accordance with Section 3.3.3 of DCAAR 5410.11, the regulation would not apply and DCAA personnel are not required to contact DCAA's General Counsel prior to responding to the request. The regulation does apply when litigation requests are received directly from counsel representing other than the United States Government, in which case DCAA personnel are required to contact the DCAA General Counsel or his/her delegate prior to responding to the request.

### **15-506.2 Support Government Trial Attorney**

Audit support to Government trial attorneys should consist of clearly communicating the facts of the case, explaining the significance of the auditing and accounting issues, if required, and providing appropriate requested assistance. This may include suggesting areas for discovery or participating as a technical advisor during depositions. Field auditors should provide only basic accounting information and specific issue (factual) support. They should exercise special care to avoid expressing opinions on subjects outside the accounting field. They should not express legal or engineering opinions, for example. Auditors should elevate to the regional offices any requests from Government trial attorneys that fall outside of accounting areas. For example, auditors should avoid assessing the litigative risk of a case. This responsibility for board or court cases rests with the Government trial attorney. FAOs should inform the regional CDC in advance of significant meetings with the trial attorney in order to facilitate regional involvement in important cases.

### **15-506.3 Coordinate with Government Trial Attorney and Contracting Officer**

Offer services to the contracting officer and Government trial attorney whenever a situation arises where audit services can be effectively used. Notify the Government trial attorney and the contracting officer promptly of any problems of access to records or contractor delay in furnishing data (see 1-504.4). Request them to obtain any necessary technical reviews, and notify them of any technical reviews that are not received on a timely basis. Delays in receiving required technical reports can impair the Government's case and hamper the auditor's work. FAOs should be aware of cases in a prehearing status and periodically contact the Government trial attorney to offer assistance and discuss case status.

### **15-506.4 Maintain Case Files**

Establish a separate case file for each active board or other contract disputes case. Index the file for easy retrieval of documents. Prepare and maintain, in the file, a case summary for significant cases (see 15-504.2) and a chronology of significant events for routine cases. Documents belonging in the case file are the decision being appealed, the contract, the audit report, the contractor's complaint, the Government's response to the complaint, correspondence between parties relating to the appeal, and any other pertinent information. Audit assignment files related to contract disputes should be segregated from

the general working paper files and maintained in a locked file or cabinet. Contract disputes cases can last for many years. This procedure secures and protects documents during transition periods (change of cognizant supervisors or FAO, for example).

#### **15-506.5 Produce Documents**

Clarify and coordinate requests for the production of documents with the trial attorney and the regional office. Review DMIS data to identify all pertinent files. Once identified, segregate these files with the case file for the remainder of the litigation. A DCAA representative should physically observe any contractor access to these files during discovery. Arrange to have all pertinent working papers at the hearing. Protect classified documents essential to the case in the appropriate manner. Retain copies of all working papers released from DCAA custody.

#### **15-506.6 Testify as a Witness**

The auditor who performed the original audit or his supervisor will normally be the DCAA factual witness, unless the regional audit manager in coordination with the regional CDC and the Government trial attorney believe other arrangements are appropriate. If the performing auditor is not available (because of termination, for example), or if the original auditor was a trainee, the supervisory auditor involved in the original audit will be the recommended DCAA factual witness. Promptly notify the regional office when FAO personnel must testify, so the regional CDC may review the case and assist in the witness preparation when appropriate. Self-study course No. 9310, "Auditor Testimony in BCA Proceedings" should be taken by all DCAA witnesses. The CDC should coordinate planned action with the Government trial attorneys. Refer any requests from the Government trial attorney for additional or expert witnesses to the regional CDC.

#### **15-506.7 Evaluate Audit Support**

Following audit participation in an appeal, evaluate the effectiveness of audit support and the need for additional guidance on the issues involved. This report should be submitted to the regional office.

#### **15-507 Headquarters Support**

a. Headquarters, Accounting and Cost Principles Division, will monitor all actual and potential cases and update guidance based on an analysis of individual cases or trends. Headquarters will assist regional offices upon receipt of a written request, input of case summary information (see 15-504.2), the region's position, and any additional supporting documentation needed to clearly explain the issue (see 4-902.2). The Accounting and Cost Principles Division will evaluate regional requests for Office of General Counsel (DL) involvement and make referrals to DL, if appropriate. Similarly, Headquarters may refer a representative to testify in support of the regional expert witness in significant cases concerning highly complex or unique issues involving accounting principles, auditing standards, contract cost issues, the application of the FAR cost principles, etc. Headquarters will support cases when such support will serve a useful

purpose and the elements of the case are likely to have a significant impact on future allowability and allocability of costs at a number of contractor locations.

b. Headquarters, DL, will review and analyze regional requests for DL support referred by the Accounting and Cost Principles Division. DL will coordinate with Policy the identification of cases appropriate for DL involvement. Similarly, any direct requests from Government trial attorneys for DL involvement in contract disputes cases will be coordinated with Policy. For cases accepted by DL for involvement, DL will contact the Government trial attorney and offer assistance. DL will communicate to Policy and the region the significant areas of assistance provided to the Government trial attorney.

## **15-600 Section 6 --- Contract Audit Follow-up**

### **15-601 Introduction**

This section presents the responsibilities of acquisition components and contract auditors under DoD Instruction 7640.02, Policy for Follow-up on Contract Audit Reports. This instruction supersedes DoD Directive 7640.2, Policy for Follow-up on Contract Audit Reports, which was cancelled.

### **15-602 Background and General Requirements**

a. Audit reports often deal with significant problems or controversial situations. Accordingly, each report must provide clear rationale for the audit position. At times, differences of opinion between the auditor and the contracting officer may arise during the settlement of specific audit issues. Whenever a problem of this type occurs, the auditor must provide the contracting officer with all pertinent evidential materials. Moreover, there shall be continuous communication between the contract auditor and the contracting officer, to promote understanding and improve the potential for satisfactory resolution, before a final decision is rendered.

b. DoD Instruction 7640.02, Policy for Follow-up on Contract Audit Reports, dated August 22, 2008, prescribes DoD policies for contract audit follow-up and establishes a system for management action on contract audit reports. The system provides for (1) tracking and reporting of specified types of contract audit reports, (2) procedures to monitor and ensure the proper, timely resolution and disposition of contract audit reports, and (3) periodic evaluations by internal auditors of the effectiveness of the DoD components' follow-up systems.

### **15-603 Responsibilities of Acquisition Components**

The DoD Instruction requires Secretaries of the Military Departments and the Directors of the Defense Agencies to:

a. Designate a top management official to oversee contract audit follow-up (CAFU), including resolution and disposition actions.

b. Establish and implement procedures whereby contracting officers shall fully consider all contract audit findings and recommendations in developing the pre-negotiation and post-negotiation positions, if applicable, including the assessment of recommended penalties and interest.

c. Establish and implement procedures for maintaining records regarding the status of all reportable audit reports.

d. Require periodic internal reviews of the DoD components' follow-up programs to determine whether contracting officials timely and effectively resolve and disposition audit findings and recommendations, including the assessment of penalties and interest.

## **15-604 DCAA Responsibilities**

The DoD Instruction requires DCAA to:

- a. issue timely audit reports and provide timely and complete responses to contracting officers or review officials who request clarification or information supporting the audit findings and recommendations,
- b. provide timely and adequate support to the DoD IG and any other DoD organization reviewing a DoD component's contract audit follow-up program,
- c. consider all feedback provided by contracting officials to analyze and improve audit procedures and practices, and
- d. provide a monthly listing of new reportable contract audit reports to the DoD components. The information in the monthly listing is described in 15-605.2d.

## **15-605 Procedures in DoD Instruction 7640.02**

### **15-605.1 Tracking of Audit Reports**

DoD components are required to track all contract audit reports. Reportable audits are to be tracked by the components in a CAFU system that (1) records the actions taken to resolve and disposition reportable contract audits and (2) serves as the source for the semiannual status information reported by the DoD Inspector General to the Secretary of Defense and to Congress.

### **15-605.2 Reporting Requirements**

a. Most DoD components use the CAFU system maintained by the Defense Contract Management Agency (DCMA), and that system generates the semiannual status reports required by the DoD IG. Components not using DCMA's automated CAFU system must submit status reports within three business days after the end of the semiannual periods ending March 31 and September 30. The semiannual status reports include reportable reports (1) open as of the end of the reporting period, and (2) closed during the reporting period.

b. Reportable reports are:

(1) those reports, regardless of dollar value, containing findings and recommendations covering accounting and management systems audits (including estimating systems, control environment and overall accounting systems, billing systems, compensation systems, material management and accounting systems, budget and planning systems, labor systems, information technology systems, purchasing systems, and direct and indirect cost systems), accounting and management systems follow-up audits, estimating system real-time deficiency reports, earned value management systems, post-award audits, cost accounting standards (CAS) noncompliance reports and CAS cost impact statements. Reports containing only favorable findings and recommendations, such as CAS reports recommending that a contractor's proposed accounting change be approved, are not reportable.

(2) reports with total questioned costs or potential cost avoidance of \$100,000 or more regardless of Government participation, covering operations audits, operations follow-up audits, incurred costs (except for audits of audit-determined indirect rates where

the auditor and contractor agree on all questioned costs and the auditor does not identify questioned costs subject to penalty), settlement of final indirect cost rates, final pricing submissions, termination settlement proposals, claims, insurance and pension audits, capital and direct medical and education cost audits, retention incentive pay audits and Service Contract Act wage determination reviews.

(3) all supplemental audit reports that supersede or supplement a previously issued reportable audit report are reportable, regardless of whether the supplemental report includes findings, recommendations, questioned costs, or potential cost avoidance. Auditors should issue a supplemental report when there is a significant change in audit findings (see CAM 10-214 on supplement reports). A supplemental report supersedes the prior audit report in the CAFU system; therefore, auditors should not use other communication methods such as email because these will not be reflected and tracked in the CAFU system.

c. Audit reports covering pre-award proposals; forward pricing labor, overhead, and other advance rate proposals; progress payments; pre-award surveys; proposals for change orders or modifications; assist audits; auditor-determined final indirect rates where the auditor and contractor agree on the questioned costs and DCAA does not identify questioned costs subject to penalty; and any other audit reports not specifically identified as reportable in the Instruction are not subject to the reporting requirements of the Instruction.

d. DCAA Headquarters will provide a listing of reportable audits issued each month to the DoD components within three business days following month's end. The listing includes the report number; report date; contractor name; DoD Activity Address Code; type of audit; questioned costs, potential cost avoidance, or recommended price adjustment; questioned costs subject to penalty; and whether the report includes qualifications or unresolved costs.

e. Questioned costs are not adjusted for contract type (e.g., fixed-price or cost-type) or Government participation. This allows users to readily match questioned costs shown in a component's CAFU system record to questioned costs in the corresponding audit report.

f. The contracting officers shall report questioned costs and sustained amounts in the CAFU system by: (1) including those agreed to between the auditor and contractor, except audit-determined incurred cost audits where the auditor and contractor agree on all questioned costs and the auditor does not identify questioned costs subject to penalty, (2) including those negotiated by another DoD contracting officer that are not being reported elsewhere in the CAFU system, and (3) excluding corporate or divisional allocated costs if another DoD contracting officer is responsible for negotiating and reporting them in the CAFU system.

g. The contracting officers shall ensure the accuracy of all data in their CAFU system.

### **15-605.3 Resolution and Disposition of Reportable Contract Audit Reports**

a. The contracting officer shall document the resolution of the audit report in a signed and dated pre-negotiation memorandum, if applicable. The contracting officer shall indicate whether each audit finding and/or recommendation is agreed to and, if not, the rationale for the disagreement.

b. The contracting officer shall (1) assess penalties and interest if the contracting officer determines that the contractor included costs that are expressly unallowable or previously determined to be unallowable in its final indirect cost rate proposal, (2) report the amount of assessed penalties in the CAFU system separate from the reported costs ques-

tioned sustained, and (3) collect interest assessed on overpayments resulting from defective certified cost or pricing data or assessed on increased costs paid by the Government as a result of a cost accounting standard noncompliance.

c. All reportable reports are to be tracked until dispositioned by the contracting officer and closed for follow-up purposes. Prior to reporting the audit as dispositioned, the contracting officer shall prepare, sign, and date a post-negotiation memorandum documenting the disposition results of all reported findings and recommendations. A copy of the post-negotiation memorandum shall be provided to DCAA or to other Government agencies involved in, or affected by, the negotiation, as appropriate.

d. Upon receipt of the post-negotiation memorandum, the auditor is responsible for making sure that the information in DMIS is appropriately updated. If post-negotiation memorandums are not received on a timely basis, auditors should periodically contact the contracting officer and request the status. Guidance for obtaining and processing the post-negotiation memorandum is contained in the DMIS User Guide, Appendix A - DCAA Guidance for Calculating and Reporting Audit Results in the DCAA Management Information System.

#### **15-606 NASA Contract Audit Follow-up**

DCAA provides NASA with an electronic extract from DMIS listing (1) the reportable contract audit reports where NASA is the disposition official, and (2) the reportable incurred cost audit reports where DCMA is the disposition official and the NASA portion of questioned costs equals \$100,000 or more.