



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAS 730.3.B.2.4

September 9, 2010
10-PAS-023(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Alert on Auditor Attendance at Negotiations

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. Attendance at pre-negotiation meetings with the contracting officer when requested 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.

At times, contractors provide information and/or data directly to the contracting officer as a means to support their proposed positions in anticipation of or during negotiations. Often, this additional data is in direct response to reported audit findings. The contracting officer may request DCAA assistance in understanding how that data impacts the reported audit conclusions. Auditors should support the contracting officer, to the extent possible, by providing advice on this 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.

The auditor should exercise judgment in determining whether a supplemental report is more appropriate in the specific circumstances. For example, 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 CAM 10-214 for guidance on supplemental reports. 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.

PAS 730.3.B.2.4

SUBJECT: Audit Alert on Auditor Attendance at Negotiations

10-PAS-023(R)

September 9, 2010

Auditors should document the results of their support of negotiations in accordance with CAM 15-404 and file the documentation in Livelink in the same folder with the official audit working paper files (see CAM 4-407e(9)). In order to facilitate an understanding of this guidance, frequently asked questions are provided in the Enclosure.

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Auditing Standards Division, at (703) 767-3274 or email: DCAA-PAS@dcaa.mil.

/s/

Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosures:

Frequently Asked Questions – Supporting Negotiations

DISTRIBUTION: C

FREQUENTLY ASKED QUESTIONS SUPPORTING NEGOTIATIONS

Question 1: The cost analyst assisting the contracting officer wants to discuss our audit report because he is establishing the pre-negotiation objective. Is it ok for me to discuss our audit report with him or will I impair my independence or otherwise violate GAGAS since the pre-negotiation objective may not be consistent with our audit report position?

Answer: You should answer the cost analyst's questions to help him understand the audit conclusions and rationale. Providing such explanations is a normal part of any audit and does not impair your independence or otherwise violate GAGAS. You are not developing or endorsing a particular pre-negotiation objective. Rather, you are simply helping the cost analyst understand the audit report. On occasion, it may also be appropriate to provide selected working papers which support complex audit computations to facilitate the contracting officer's understanding. Copies of working papers provided will be marked with appropriate protective markings based on the information contained therein and consistent with the audit report (see CAM 10-205).

Question 2: We issued the audit report on a proposal. In anticipation of negotiations which are scheduled to start in two days, the contractor has now significantly updated subcontractor cost analysis for a major subcontract. What should we do?

Answer: Since the subcontractor cost analysis is significantly updated and is for a major subcontract, it will likely require extensive review or analysis. Therefore, you should recommend in writing that the contracting officer delay the negotiations for that part of the proposal to allow time for you to review the information and issue a supplemental report. You should also recommend that, in the meantime, the contracting officer proceed with the negotiations for the other parts of the proposal.

Question 3: During negotiations, which I attended, the contractor submitted some updated labor data. I assisted the contracting officer by verifying the updated data to supporting documentation and ran the updated data through the audit report schedules and underlying spreadsheets to determine the impact on the audit report findings. The contracting officer wants me to issue a supplemental report revising the reported audit position to incorporate this data. Should I issue a supplemental report?

Answer: No. Since you only provided technical advice to the contracting officer to assist him in understanding the impact of the updated data on the reported audit conclusions, you should not issue a supplemental report. However, you can provide the contracting officer with documentation of your verification of the updated labor data and should also document the results of your attendance at the negotiation conferences in accordance with CAM 15.404.1.

Question 4: We are attending negotiations involving a proposal for which we audited and reported on material and subcontract costs only (activity code 27000). During negotiations, the contractor provided additional data on significant outsourced computing costs that were not

included in the parts of the proposal that we audited. The contracting officer wants to know what we think about the computing costs. Can I review the data provided and comment on the computing costs?

Answer: No. DCAA auditors attend negotiations where DCAA has issued an audit report on the contractor's submission (e.g., a price proposal or, in this case, part of a proposal) for the purpose of helping the contracting officer understand audit report results. This includes providing advice on additional data provided by the contractor during negotiations to assist the contracting officer in understanding how that data impacts the reported audit conclusions. Since the computing costs were not within the scope of the audit, you have performed no audit work to support an opinion on those costs. Therefore, you should not review data related to those costs during negotiations. However, since the computing costs are significant, you should recommend to the contracting officer that the FAO audit the costs and issue a supplemental report. In any event, if you have knowledge concerning the contractor's accounting practices, based on your experience with the contractor, that indicates that the proposed computing costs are not an acceptable basis for the negotiation of a fair and reasonable price, you should provide that information as technical advice to the contracting officer. For example, if the contractor is proposing the computing costs as direct costs, but you believe the costs may already included in the overhead because the contractor's disclosed practice is to account for those costs as indirect, you should advise the contracting officer accordingly.