



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PSP 730.5.02/2011-22

August 19, 2011
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MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Revised Audit Program for Postaward Audits

SUMMARY

Effective immediately, all postaward audits (Activity Code series 42000) shall be accomplished using the revised standard audit program (Version 7.0) which has been posted to APPS. The revised audit program deletes all probe testing requirements and expands the risk assessment procedures and the detailed audit steps. Based on the totality of evidence gathered during the risk assessment phase of the audit, the audit team will determine whether the audit should be continued or terminated based on risk. Auditors will notify the contracting officers of the termination of the audits. Auditors performing current postaward audits should update current audit programs utilizing this new audit program.

BACKGROUND

The Truth in Negotiations Act (TINA) was enacted to provide the Government with a price reduction remedy if the contractor fails to disclose the most accurate, complete and current data as of the date of agreement on price, which results in an increased contract price. The purpose of the postaward audit is to determine if the contract pricing action is materially in compliance with 10 U.S.C. 2306a (TINA) and, if not, to recommend a contract price adjustment to the cognizant contracting officer.

GUIDANCE

The postaward standard audit program has been revised to provide for a more comprehensive risk assessment and detailed audit procedures to facilitate compliance with the Generally Accepted Government Auditing Standards. The most significant changes to the audit program are the deletion of the probe testing steps and an increase in the risk assessment steps to allow the audit team to make an informed decision based on the results of the risk assessment procedures to either proceed with or terminate the postaward audit. It is important that the results of all the risk assessment procedures be considered in the determination of whether an overall risk for defective pricing exists. If the audit team determines that the overall risk of defective pricing is minimal based on the totality of the evidence analyzed during the risk assessment, the auditor can prepare a memorandum notifying the contracting officer and contractor that the assignment has been terminated.

The enhanced risk assessment procedures include a step to hold a walk-through of the pricing action with the contractor so it can identify the cost or pricing data submitted for the pricing action under review and the steps taken to ensure that the most accurate, complete and current data were disclosed to the Government. In addition, the walk-through will serve to achieve an understanding of the basis of the estimates of the pricing action and to gain an understanding of the internal controls in place to ensure TINA compliance.

The detailed audit steps also have been improved. However, these steps are not all-inclusive and the audit team must tailor the audit program based on the results of the risk assessment. In addition, the audit program makes it clear that (a) the working papers must include sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date (date of agreement on price), (b) once the decision is made to go forward with a complete audit, the auditor must conduct testing on all significant cost elements regardless of the results of the overrun/underrun results, and (c) if defective pricing is found, the working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).

All newly established and in-process audits being conducted in the postaward Activity Code Series 42000 shall use the revised audit program. The APPS has been updated to deliver the revised audit program with all new assignments. The revised audit program is also available on the DCAA intranet for auditors to incorporate into in-process audits. Audit teams may not terminate postaward audits based solely on probe testing called for in the prior version of the standard audit program. Audit teams must expand the risk assessment portion of the in-process postaward audits and based on the totality of evidence gathered during the risk assessment make a determination as to whether the audit should proceed.

CLOSING REMARKS

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Pricing and Special Projects Division, at (703) 767-3290 or e-mail at DCAA-PSP@dcaa.mil.

/s/
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