

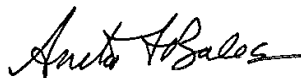
# DCAA CONTRACT AUDIT MANUAL

## FOREWORD

The DCAA Contract Audit Manual (DCAA Manual 7640.1) is an official publication of the Defense Contract Audit Agency (DCAA). It prescribes auditing policies and procedures and furnishes guidance in auditing techniques for personnel engaged in the performance of the DCAA mission.

All DCAA supervisory personnel should promote the study and use of the manual by their audit staffs. Further, all DCAA personnel are encouraged to submit recommendations for constructive changes or improvement to the manual.

The manual is designed to minimize the necessity of referring to other publications for technical and procedural guidance; therefore, technical supplemental guidance or instructions will not be issued by regional offices except as specifically authorized by the Director, DCAA.



Anita F. Bales  
Director

# Chapter 00

## Introduction to the Contract Audit Manual

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### **0-001 Introduction \*\***

Introductory material is presented in this section, along with an explanation of certain terms and abbreviations used frequently in this manual.

### **0-002 Purpose and Applicability of the Manual \*\***

a. This manual is issued to provide technical audit guidance, audit techniques, audit standards, and technical policies and procedures to be followed by DCAA personnel in the execution of the contract audit mission (see also 0-006). The material in this manual is instructive. Reference to this manual should not be made in audit reports or correspondence addressed to offices other than those of DCAA.

b. The procedural and audit guidance in the manual is applicable to the audit of all types of contracts. The auditor, however, must use professional judgment in (1) selecting the procedures and techniques best suited to the audit objectives, and (2) determining the scope of the audit in each instance.

### **0-003 Citation \*\***

The manual bears the title "DCAA Contract Audit Manual". It may be referred to as "CAM" and individual paragraphs may be cited as "CAM" followed by the paragraph number; for example, "CAM 1-103.". Within the manual this citation is "1-103."

## **0-004 Numbering \*\***

Paragraphs are numbered as follows:

Chapter Number (Or Appendix Letter)      4-104

Section / Paragraph                              4-104

Generally, paragraphs whose numbers include a decimal (as 1-203.1 through 1-203.3) are major, first-level subdivisions of the basic paragraph subject (as 1-203).

## **0-005 Revisions \*\***

The process to update the CAM is continuous. The electronic version of the CAM is the most current and is available on-line in DCAA's Virtual Information Publication Enterprise Resource (VIPER). The electronic version of the CAM is also available to the public at [dcaa.mil](http://dcaa.mil).

## **0-006 Other DCAA Audit Guidance \*\***

Memorandums for Regional Directors (MRDs) provide a mechanism for disseminating audit guidance which supplements or revises audit guidance. Audit guidance in open MRDs is available in VIPER under MRDs. Changes in audit guidance issued in an MRD are generally incorporated in CAM simultaneously, but in some instances may be incorporated in CAM at a later date. If the latter, audit guidance in an open MRD supersedes the guidance reflected in CAM.

When an auditor starts a new assignment, open MRDs must be reviewed for any guidance that may apply to that assignment. Open MRDs can be identified using the link provided on the DCAA Intranet home page for "MRDs, AGMs, & AMGMs" and the date range function.

The on-line CAM, available within VIPER and the [public web site](#), is the most current version of the audit manual and should be used, considering any open MRDs, over other CAM versions to the extent possible.

## **0-007 User Comments/Suggestions \*\***

User comments/suggestions are welcome. DCAA employees are encouraged to report any errors noted in the manual using the DCAA Single-Source Suggestion Forum available from the intranet home page.

Non-DCAA users can send comments/suggestions by fax to (703) 767-3234, by e-mail to DCAA-PPS@dcaa.mil, or mail to:

Headquarters, DCAA

Attention: Publications and Systems Division (PPS)

8725 John J. Kingman Rd., Suite 2135

Fort Belvoir, VA 22060-6219

## **0-008 Explanation of Terms and Abbreviations\*\***

DCAA --- The Defense Contract Audit Agency

Director - Director, DCAA

Headquarters - Headquarters, DCAA

DoD - The Department of Defense

**Regional office** - The DCAA office having responsibility for all DCAA audit offices and auditors within a specified geographical area. Each is headed by a regional director and is the only organizational echelon between Headquarters and the field audit offices. Within each regional office, a particular regional audit manager exercises line authority over designated field audit offices.

**Field audit office (FAO)** - A DCAA term which encompasses both branch offices and resident offices. It does not include regional offices.

**Resident office** - The field audit office having responsibility for the DCAA mission, generally at one contractor location, and physically located at the contractor's plant.

**Branch office** - The field audit office having responsibility for the DCAA mission for all contractor locations in a designated area except those assigned to a resident office.

**Auditor** - An auditor performing the contract audit function of DCAA.

**Financial liaison advisor (FLA)** - A DCAA auditor assigned responsibility for coordinating contract audit matters with a procurement or contract administration office.

**Assignment Code** - The smallest scope of audit review which may be separately programmed, including a five-digit identifier, a title and a scope statement or the five-digit number recognized by the DCAA DMIS as specifying a discrete audit scope.

**Audit Area** - A set of interrelated internal controls or elements of risk within one of the four major functional groupings.

**Major Functional Grouping** - An element of the contractor's cost accounting system. The four major groupings presently in use are: General Controls (accounting and estimating systems, balance sheet, and income accounts); Direct Labor; Direct Material; and Indirect Expense.

**Subarea** - An element of internal control or risk within an audit area. For example, the audit area E.1, Special Purpose Reviews within the major functional grouping Indirect Expense is further analyzed through the subareas Insurance, Pensions, Cost Allocation Bases, IR&D/B&P, and Other Audits.

**Workpackage** - Any combination of predefined scopes of work programmed separately on the DMIS. It can include:

- \* A single assignment code
- \* Two or more assignment codes
- \* An audit area or subarea (some subareas contain only a single assignment code)
- \* A major functional grouping
- \* All direct costs or all indirect costs
- \* All costs included in the submission

This manual also uses definitions stated in Federal Acquisition Regulation (FAR) and Defense FAR Supplement (DFARS).

| <b>Acronym/Abbreviation</b> | <b>Description</b>                 |
|-----------------------------|------------------------------------|
| A-E                         | Architect-Engineer                 |
| ABC                         | Activity Based Costing             |
| ACMS                        | Advanced Cost Management Systems   |
| ACO                         | Administrative Contracting Officer |
| ACRS                        | Accelerated Cost Recovery System   |
| ADR                         | Alternative Dispute Resolution     |

|       |  |
|-------|--|
| ADR   | Asset Depreciation Range                   |
| ADV   | Auditable Dollar Volume                    |
| AFAA  | Air Force Audit Agency                     |
| AID   | Agency for International Development       |
| AICPA | American Institute of CPAs                 |
| ASBCA | Armed Services Board of Contract Appeals   |
| AT    | Attestation Standards                      |
| B&P   | Bid & Proposal                             |
| BCA   | Board(s) of Contract Appeals               |
| BOA   | Basic Ordering Agreement(s)                |
| BOE   | Basis of Estimate                          |
| BOM   | Bill of Material                           |
| CACO  | Corporate/Home Office ACO                  |
| CACS  | Contract Audit Closing Statement(s) (DCAA) |
| CACWS | Cumulative Allowable Cost Worksheet        |
| CAD   | Corporate Audit Directorate                |
| CAIG  | Cost Analysis Improvement Group (DoD)      |
| CAM   | Contract Audit Manual (DCAA)               |
| CAOs  | Contract Administration Offices            |
| CAS   | Cost Accounting Standard(s)                |

|       |   |
|-------|---|
| CCDR  | Contractor Cost Data Report(s)/ing              |
| CDA   | Contract Disputes Act                           |
| CDPMO | Contractor Disclosure Program Management Office |
| CECSR | Contractor Employee Compensation System Review  |
| CFAO  | Cognizant Federal agency official               |
| CFR   | Code of Federal Regulations                     |
| CFSR  | Contract Funds Status Report(s)/ing             |
| CFY   | Contractor Fiscal Year                          |
| CHOA  | Corporate Home Office Auditor (DCAA)            |
| CIPR  | Contractor Insurance/Pension Review             |
| CLIN  | Contract Line Item Number                       |
| CMTL  | Computer Managed Training Library               |
| CO    | Contracting Officer                             |
| COBOL | Common Business-Oriented Language (IT)          |
| COE   | Corps of Engineers (Army)                       |
| COR   | Contracting Officer's Representative            |
| CPA   | Certified Public Accountant(s)                  |
| CPAF  | Cost-Plus-Award-Fee (Contract)                  |
| CPFF  | Cost-Plus-Fixed-Fee (Contract)                  |

|        |  |
|--------|--|
| CPIF   | Cost-Plus-Incentive-Fee (Contract)                               |
| CPR    | Contract Performance Report (previously Cost Performance Report) |
| CPSR   | Contractor Purchasing System Review                              |
| CPU    | Central Processing Unit (IT)                                     |
| C/SCSC | Cost/Schedule Control System Criteria                            |
| CSRA   | Civil Service Reform Act   |
| CSSR   | Cost/Schedule Status Report(s)/ing                               |
| CUI    | Controlled Unclassified Information                              |
| CY     | Calendar Year  |
| DAC    | Defense Acquisition Circular                                     |
| DAR    | Defense Acquisition Regulation                                   |
| DCAAI  | Defense Contract Audit Agency Instruction                        |
| DCAAM  | Defense Contract Audit Agency Manual                             |
| DCAAP  | Defense Contract Audit Agency Pamphlet                           |
| DCAAR  | Defense Contract Audit Agency Regulation                         |
| DCAI   | Defense Contract Audit Institute                                 |
| DCMA   | Defense Contract Management Agency                               |
| DCMD   | Defense Contract Management District                             |
| DFARS  | Defense Federal Acquisition Regulation Supplement                |



|        |   |
|--------|---|
| DFAS   | Defense Finance & Accounting Service                            |
| DHHS   | Department of Health & Human Services                           |
| DIIS   | DCAA Integrated Information System                              |
| DL     | General Counsel (DCAA Hqs)                                      |
| DLA    | Defense Logistics Agency  |
| DLAD   | Defense Logistics Agency Directive                              |
| DLAM   | Defense Logistics Agency Manual                                 |
| DMIS   | Defense Contract Audit Agency Management Information System     |
| DoDAAC | Department of Defense Address Activity Code                     |
| DoDD   | Department of Defense Directive                                 |
| DoDI   | Department of Defense Instruction                               |
| DoDIG  | Department of Defense Inspector General                         |
| DOE    | Department of Energy  |
| DOJ    | Department of Justice   |
| DOL    | Department of Labor   |
| DOT    | Department of Transportation                                    |
| DPAPSS | Defense Procurement, Acquisition Policy, and Strategic Sourcing |
| DPRO   | Defense Plant Representative Offices                            |
| DSCA   | Defense Security Cooperation Agency                             |

|       |  |
|-------|--|
| EAC   | Estimate At Completion (Cost)                  |
| ECPF  | Electronic Contractor Permanent File           |
| EDP   | Electronic Data Processing (Computer(s))       |
| EEO   | Equal Employment Opportunity                   |
| EEOC  | Equal Employment Opportunity Commission        |
| EPA   | Economic Price Adjustment                      |
| EPA   | Environmental Protection Agency                |
| ERISA | Employee Retirement Income Security Act (1974) |
| ERP   | Enterprise Resource Planning                   |
| ESOP  | Employee Stock Option Plan                     |
| ESS   | Estimating System Survey                       |
| ETC   | Estimate to Complete (Cost)                    |
| EVMS  | Earned Value Management System                 |
| FAC   | Federal Acquisition Circular                   |
| FAO   | Field Audit Office                             |
| FAR   | Federal Acquisition Regulation                 |
| FASB  | Financial Accounting Standards Board           |
| FASC  | Financial Advisory Services Center             |
| FAT   | First Article Testing                          |
| FCR   | Federal Contracts Report (BNA)                 |

|       |   |
|-------|---|
| FCRC  | Federal Contract Research Center(s)                   |
| FEMA  | Federal Emergency Management Agency                   |
| FERC  | Federal Energy Regulatory Commission                  |
| FFP   | Firm-Fixed Price (Contract)                           |
| FFRDC | Federally Funded R&D Center(s)                        |
| FICA  | Federal Insurance Contributions Act (Social Security) |
| FLA   | Financial Liaison Advisor                             |
| FLRA  | Federal Labor Relations Authority                     |
| FLSA  | Fair Labor Standards Act                              |
| FMS   | Foreign Military Sales                                |
| FPI   | Fixed-Price Incentive (Contract)                      |
| FPR   | Fixed-Price Redeterminable (Contract)                 |
| FPRA  | Forward Pricing Rate Agreement(s)                     |
| FUTA  | Federal Unemployment Tax Act                          |
| FY    | Fiscal Year   |
| G&A   | General & Administrative (Expense)                    |
| GAAP  | Generally Accepted Accounting Principles              |
| GAAS  | Generally Accepted Auditing Standards                 |
| GAC   | Group Audit Coordinator (DCAA)                        |

|       |   |
|-------|---|
| GAGAS | Generally Accepted Govt. Auditing Standards (GAO)         |
| GAO   | Government Accountability Office                          |
| GASB  | Governmental Accounting Standards Board                   |
| GBL   | Government Bill of Lading                                 |
| GFAE  | Government-Furnished Aeronautical Equipment               |
| GFM   | Government-Furnished Material                             |
| GFP   | Government-Furnished Property                             |
| GOCO  | Government-Owned, Contractor-Operated (Plant)             |
| GPO   | Government Printing Office                                |
| GSA   | General Services Administration                           |
| GSBCA | General Services Administration Board of Contract Appeals |
| HCFA  | Health Care Financing Administration                      |
| I/PS  | Insurance/Pension Specialist                              |
| IG    | Inspector General   |
| IIA   | Institute of Internal Auditors                            |
| IPA   | Independent Public Accountant                             |
| IPT   | Integrated Product Team                                   |
| IR&D  | Independent Research & Development (Cost)                 |
| IRC   | Internal Revenue Code                                     |

|       |   |
|-------|---|
| IRS   | Internal Revenue Service                                  |
| IS    | Information Systems                                       |
| IT    | Information Technology                                    |
| JCL   | Job Control Language (IT)                                 |
| JTR   | Joint Travel Regulation                                   |
| MICOM | U.S. Army Missile Command                                 |
| MMAS  | Material Management and Accounting System                 |
| MOU   | Memorandum of Understanding                               |
| MRD   | Memorandum for Regional Directors (DCAA)                  |
| MRP   | Material Requirements Planning (Inventory Control System) |
| MWS   | Major Weapon System                                       |
| NASA  | National Aeronautics and Space Administration             |
| NGB   | National Guard Bureau (DoD)                               |
| NRC   | Nuclear Regulatory Commission                             |
| OAL   | Audit Liaison Division (DCAA Hqs)                         |
| ODC   | Other Direct Cost   |
| OFPP  | Office of Federal Procurement Policy (OMB)                |
| OIG   | Office of the Inspector General                           |
| OMB   | Office of Management and Budget                           |

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| ONR    | Office of Naval Research                         |
| OPSEC  | DoD Operations Security Program                  |
| OT     | Other Transactions                               |
| OTS    | Technical Audit Services (DCAA Hqs)              |
| OWD    | Workload and Trends Division (DCAA Hqs)          |
| PAC    | Accounting & Cost Principles Division (DCAA Hqs) |
| PACO   | Principal ACO                                    |
| PAS    | Auditing Standards Division (DCAA Hqs)           |
| PAT    | Process Action Team                              |
| PBIS   | Performance Based Incentive System               |
| PBP    | Performance Based Payment                        |
| PCO    | Procuring Contracting Officer                    |
| PDR    | Plantwide Data Report                            |
| PII    | Personally Identifiable Information              |
| PL     | Public Law                                       |
| PMM    | Personnel Management Manual                      |
| PNM    | Price Negotiation Memorandum                     |
| PPD    | Programs Division (DCAA Hqs)                     |
| PQA    | Quality Assurance Division (DCAA Hqs)            |
| PROCAS | Process Contract Administration Services (DLA)   |

|      |   |
|------|---|
| PS&C | Production Scheduling & Control                     |
| PSAD | Planning and Staff Allocation Document              |
| PSP  | Special Projects (DCAA Hqs)                         |
| PWT  | Participative Work Team                             |
| R&D  | Research & Development (Cost)                       |
| RAM  | Regional Audit Manager                              |
| RD   | Regional Director                                   |
| RFP  | Request(s) for Proposal(s)                          |
| SAM  | System for Award Management                         |
| SAS  | Statement on Auditing Standards (AICPA)             |
| SAS  | Statistical Application Software                    |
| SEC  | Securities & Exchange Commission                    |
| SF   | Standard Form                                       |
| SIC  | Suspected Irregular Conduct                         |
| SIS  | Synopsis Information System(s) (DCAA)               |
| SSAE | Statements on Standards for Attestation Engagements |
| SSEB | Source Selection Evaluation Board                   |
| T&M  | Time-and-Materials (Contract)                       |
| TBSR | Total Business System Review (ONR)                  |

|         |  |
|---------|--|
| TCO     | Termination Contracting Officer              |
| TEFRA   | Tax Equity and Fiscal Responsibility Act     |
| TQM     | Total Quality Management                     |
| TRASOPs | Tax Reduction Act Stock Ownership Plans      |
| TSC     | Technical Services Center                    |
| U.S.C.  | United States Code                           |
| VAP     | Vulnerability Assessment Procedure(s) (DCAA) |
| VLSI    | Very Large Scale Integration                 |
| WAWF    | Wide Area Workflow                           |
| W/P     | Working Papers                               |
| WBS     | Work Breakdown Structure(s)                  |
| ZBB     | Zero-Based Budgeting                         |