



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

IN REPLY REFER TO

OWD 720.1

November 22, 2005  
05-OWD-062(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: FY 2006 Audit Management Guidance for Iraq Reconstruction

This memorandum revises the audit management and reporting requirements for Iraq Reconstruction audits previously established in MRD 04-OWD-050(R) dated August 18, 2004. It also incorporates the guidance contained in the FY 06 Planning and Staff Allocation Document (MRD 05-OWD-043(R) dated July 21, 2005).

MRD 04-OWD-050(R) contained instructions for preparing Contract Data Sheets for Iraq Reconstruction Contracts which are to be submitted to Northeastern Region. Effective with the start of FY 2006, the requirement to submit updates was changed from monthly to quarterly. Therefore the first update for this fiscal year will be due to Northeastern Region by the third working day of January 2006. This change has been made to reduce the effort required by the FAO and regional staff now that there are fewer new contract awards and modifications.

MRD 04-OWD-050(R) also contained guidance requiring testing of direct costs on all new Iraq contracts and subcontracts, and semiannual testing throughout the life of the contract for contracts/subcontracts equal to or greater than \$50 million. Based on the Agency's FY 2005 audit experience, the requirement to perform continuing semiannual audits of direct costs has been revised. Beginning in FY 2006, we are discontinuing the requirement for semiannual direct cost testing throughout the life of the contract/subcontract in favor of a risk-based approach. Now all direct cost testing after the initial 6 months will be based on risk to the Government regardless of contract value.

The initial 6-month audit of direct costs on new awards may continue to be performed using activity code 17900. The original rationale for the 17900 activity code – that the testing is separate from the normal systems and direct cost audits performed on an entity-wide basis covering all auditable contracts – is still valid. However, subsequent testing will only be performed where prior audit results or other risk factors warrant continuation of the audit testing. This subsequent testing will be performed under a new 10180 activity code and should be incorporated into the annual incurred cost audit.

A new 10180 activity code is being created in DMIS within the incurred cost area for Iraqi direct cost testing. The new activity code will allow assignments to be closed in DMIS with a report issued and questioned costs. However, dollars examined may not be recorded under the 10180 code. The dollars examined will continue to be reported under the 10100 incurred cost summary assignment.

OWD 720.1

SUBJECT: FY 2006 Audit Management Guidance for Iraq Reconstruction

As stated in the PSAD, the 10180 activity code will be available with the DMIS 3.6 update, which is now expected to be distributed to the field in January 2006. The PSAD instructed FAOs to use activity code 10160 or 10170 for programming Iraq direct cost testing. Once DMIS 3.6 is distributed to the field, FAOs which need to have assignments converted to the new activity code should notify their regional DMIS point of contact for assistance.

Field audit office personnel should direct questions regarding this memorandum to their regional offices. Regional offices should direct their questions to Workload Analysis Division, at 703-767-2258.

/s/

Joseph J. Garcia  
Deputy Assistant Director  
Operations

DISTRIBUTION: C