



**DEFENSE CONTRACT AUDIT AGENCY  
DEPARTMENT OF DEFENSE  
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IN REPLY REFER TO

PAC 730.4.A.01/2010-18

January 18, 2011  
11-PAC-001(R)

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

**SUBJECT:** Audit Guidance on DCMA/DCAA Cost Recovery Initiative (CRI) and Related Rough Order of Magnitude (ROM) Calculation for Unresolved CAS Cost Impact Issues

**SUMMARY**

As part of the joint DCMA and DCAA Cost Recovery Initiative (CRI) discussed in the October 29, 2010 memorandum, DCMA and DCAA have identified a significant number of CAS cost impact issues requiring ACO dispositions or resolutions. FAOs need to coordinate with the ACOs and the DCMA Contract Management Office (CMO) responsible for resolving these audits, the Regional office, and DCAA Headquarters to ensure all audits have been identified and any requested support (i.e., development of a rough order of magnitude (ROM)) are identified and completed in a timely manner. This coordination may include attending weekly teleconferences with the local CMO to status the progress on the project.

When developing the ROM, the FAO should set up a separate assignment for each ROM using the DMIS assignment code 492009XX. The basis of the ROM needs to be adequately documented and be a good faith estimate by the auditor based on the data available. Auditors should not develop a general dollar magnitude (GDM) or a detailed cost impact (DCI) since that is the contractor's responsibility.

The FAO will accomplish the ROM calculation as a nonaudit service and provide the information to the ACO in a memorandum. Performing the ROM calculation as a nonaudit service will generally not impair independence for the future cost impact proposal audit because the cost impact proposal should be based on the FAR requirements and be more detailed than the ROM.

**BACKGROUND**

As discussed in an e-mail sent out to all DCAA staff by the Director on November 1, 2010, the DCMA and DCAA have launched a joint agency Cost Recovery Initiative (CRI) to proactively address outstanding audit issues. Currently, there are over 450 reportable audits and about 300 Form 1s valued at about \$300 million that are awaiting the ACO's disposition. The timely resolution of these audit issues is of the highest importance since delays in resolving these issues

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may impact the Government's ability to recover the amounts owed. Recovering increased costs that may have been paid by the Government, which resulted from the contractors' accounting practice changes and CAS noncompliance, are the first that will be addressed by DCAA and DCMA as part of this initiative.

DCMA and DCAA have identified the outstanding audits of accounting practice change (i.e., revised Disclosure Statements) and CAS noncompliance audits, which require ACO action, and have prioritized these audit issues based on how long the issue has been outstanding using information available at the time. The affected FAOs and Regional POCs have been provided with the list of identified issues and their initially assigned priorities. This list continues to be updated as additional cost impact issues and more current status information are identified. To accomplish the CRI objective, the ACO may ask DCAA to develop a ROM cost impact where a ROM or other cost impact amounts are not established.

## **GUIDANCE**

### **1. Coordinating and Providing Support to DCMA**

DCMA, DCAA Headquarters, and the Regional Offices are working with the FAOs to identify the complete list of outstanding CAS noncompliance and cost accounting change audit assignments that need to be resolved. As part of this effort, the FAOs will be requested to provide information relating to these audits. It is of the highest importance that this information be provided timely and accurately so that both agencies can ensure the tax payers' interests are protected. In addition, it is also imperative that DCAA and DCMA maintain an open line of communication to ensure a timely resolution of these issues. Therefore, the FAOs should stay in close contact with the ACOs and the CMO responsible for resolving the issue, which may include attending the weekly status teleconferences that are being done between the local CMO and DCMA Headquarters.

### **2. Guidance on Developing the ROM**

The FAO should set up a separate assignment for each ROM developed using the DMIS assignment code 492009XX. The FAO should include the original report that resulted in the required computation of the ROM in the description field. The ROM is not a GDM or DCI, as described in FAR 30.604 and 30.605. As stated in DCMA's Tasking Memorandum No.11-041, dated November 1, 2010, the ACO should not ask DCAA to prepare a GDM or DCI. Auditors should not develop a GDM or a DCI since that is the contractor's contractual responsibility, as specified in FAR 52.230-6, which is incorporated in CAS-covered contracts. If an FAO is requested to prepare a GDM or a DCI, the FAO should refer the ACO to the guidance in the DCMA tasking memorandum.

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The ROM should be a high level estimate of the cost impact of the accounting change or noncompliant practice and would not be at the level of detail or format required in a GDM or a DCI. The ROM will be used by the ACO to implement the 10 percent withholds authorized in FAR 30.604(i) and 30.605(i) and/or issue a final decision and unilaterally adjust affected contracts. The basis of the ROM needs to be adequately documented and be a good faith estimate by the auditor based on the data available. If the FAO is missing critical data necessary to compute the ROM and experiences difficulty in obtaining the data timely, it should request ACO assistance in obtaining the data.

If the FAO requires assistance in developing a ROM for a specific issue or requires additional audit resources, it should request assistance through its regional POC. A list of the regional POCs is included as an Enclosure to this memorandum. If regional management requires guidance on developing a ROM for a specific issue or requires additional resources, they should coordinate with Headquarters to obtain the guidance or needed resources. We ask each regional POC to monitor and oversee timely accomplishment of the required actions by the applicable FAOs.

### **3. Auditing Standards Consideration on Developing and Reporting the ROM**

Generally, when a ROM was not included in the original audit report and the FAO is requested by the ACO to provide a ROM, the FAO should supplement the original audit report. However, due to the passage of time, this will not be feasible with the issues covered by the CRI. The calculation of the ROM is not an appropriate objective for a separate attestation engagement since there is no contractor assertion or subject matter for which the contractor has accepted responsibility. Therefore, when requested by the ACO to provide a ROM as part of the CRI, the FAO should develop the ROM as a nonaudit service and provide the information to the ACO in a memorandum. The memorandum should note that the work performed does not constitute an audit or attestation engagement under GAGAS (see CAM 2-105) and should not use language that implies that an audit or attestation engagement was performed, such as “we audited or examined” or “in our opinion.”

Because the ROM is a high level estimate of the cost impact and is not at the level of detail or format required to be submitted by the contractor in a GDM or a DCI, performing the ROM calculation as a nonaudit service will generally not impair independence for an audit of the cost impact, should the contractor subsequently submit one. The contractor’s cost impact proposal (generally a GDM) should be based on the FAR requirements and the level of detail and methodology used will generally be significantly different from the FAO’s ROM calculation. If it is not, the FAO should consider whether the contractor’s cost impact proposal is adequate based on the FAR requirements. In those rare cases where the FAO determines that the contractor’s cost impact proposal is adequate and it is substantially the same as the FAO’s ROM calculation (e.g., based on the level of detail, the methodology, and estimates used), the FAO should coordinate with Headquarters PAS through the regional office for further guidance regarding possible independence concerns.

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## **CONCLUDING REMARKS**

FAO personnel having questions on this subject should contact regional personnel.  
Regional personnel having questions should contact Accounting and Cost Principles Division,  
at (703) 767-3250; or e-mail: [DCAA-PAC@dcaa.mil](mailto:DCAA-PAC@dcaa.mil).

/Signed/

Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

Enclosure:  
Regional POCs

DISTRIBUTION: C