



# **Introduction to Defense Contract Audit Agency and Overview of Audit Process**

# DCAA Overview

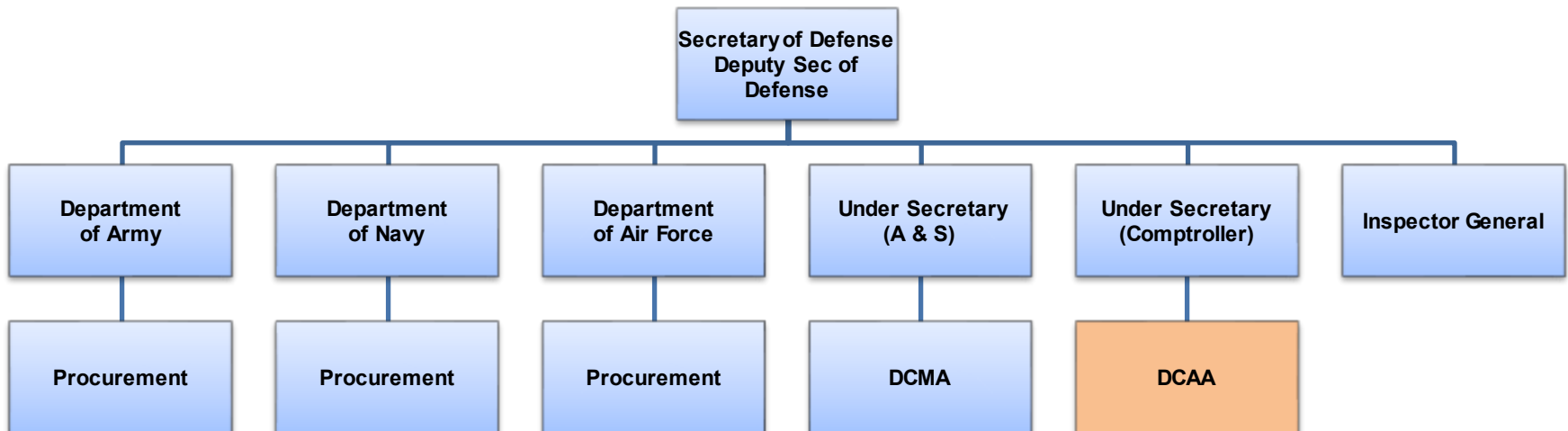
- Established in 1965 by transferring the existing contract audit functions from each of the military services into a single contract audit agency (DoD Directive 5105.36)
- Single mission organization:
  - Conduct contract audits and related financial services for the Department of Defense and other federal entities responsible for acquisition and contract administration.
  - Audit at all stages of the contract lifecycle
- Has oversight of more than 9,000 contractors every year and averages more than 2,300 audit reports which examine more than \$269 billion of contractor costs
- Approximately 4,100 employees located at over 230 offices throughout the United States and overseas

# Agency Mission

*DCAA delivers contract audit and advisory services that exceed our customers' expectations to promote timely acquisition decisions and maximize buying power so DoD has the necessary capabilities to deter current and emerging threats.*

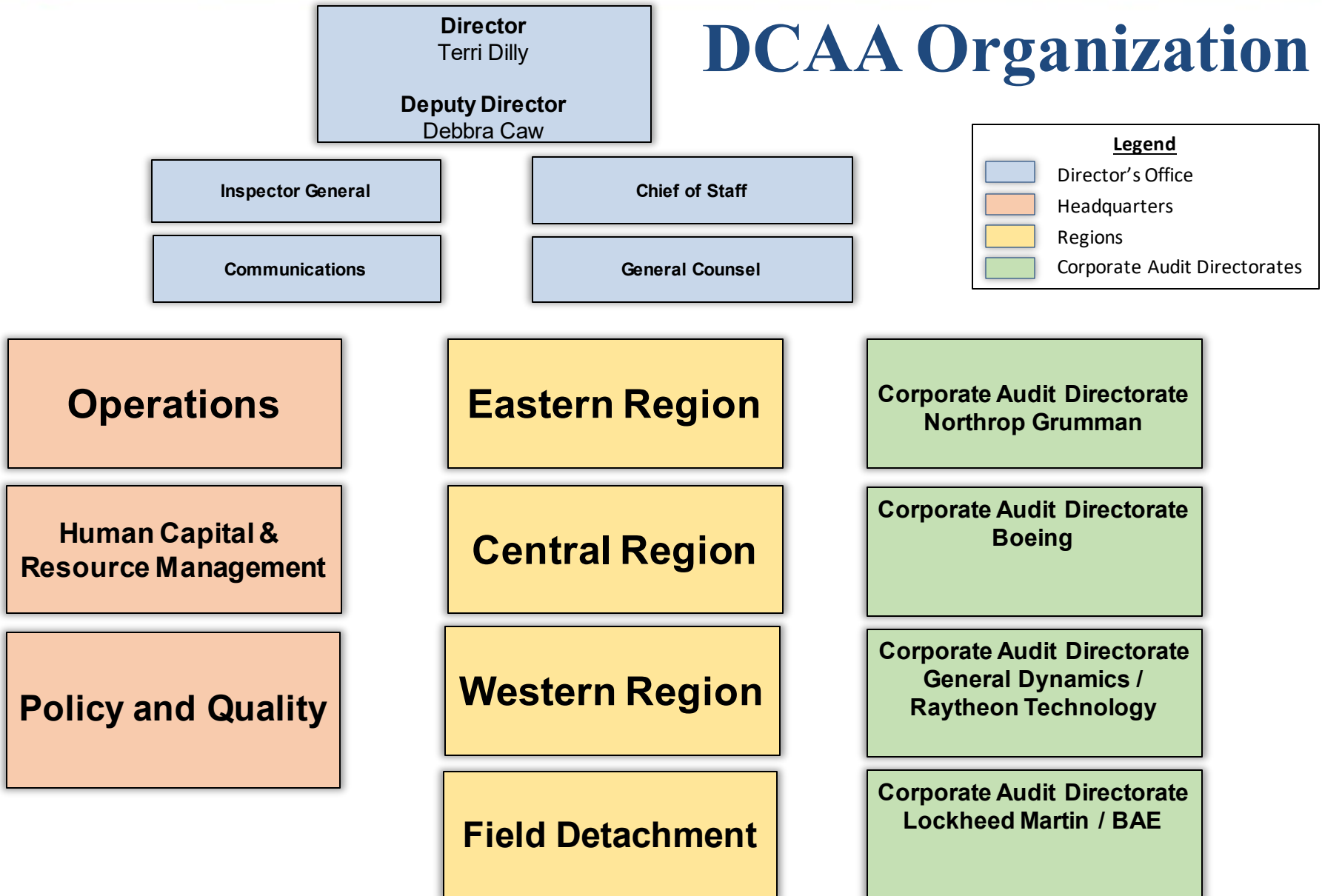
# Department of Defense

## Organization

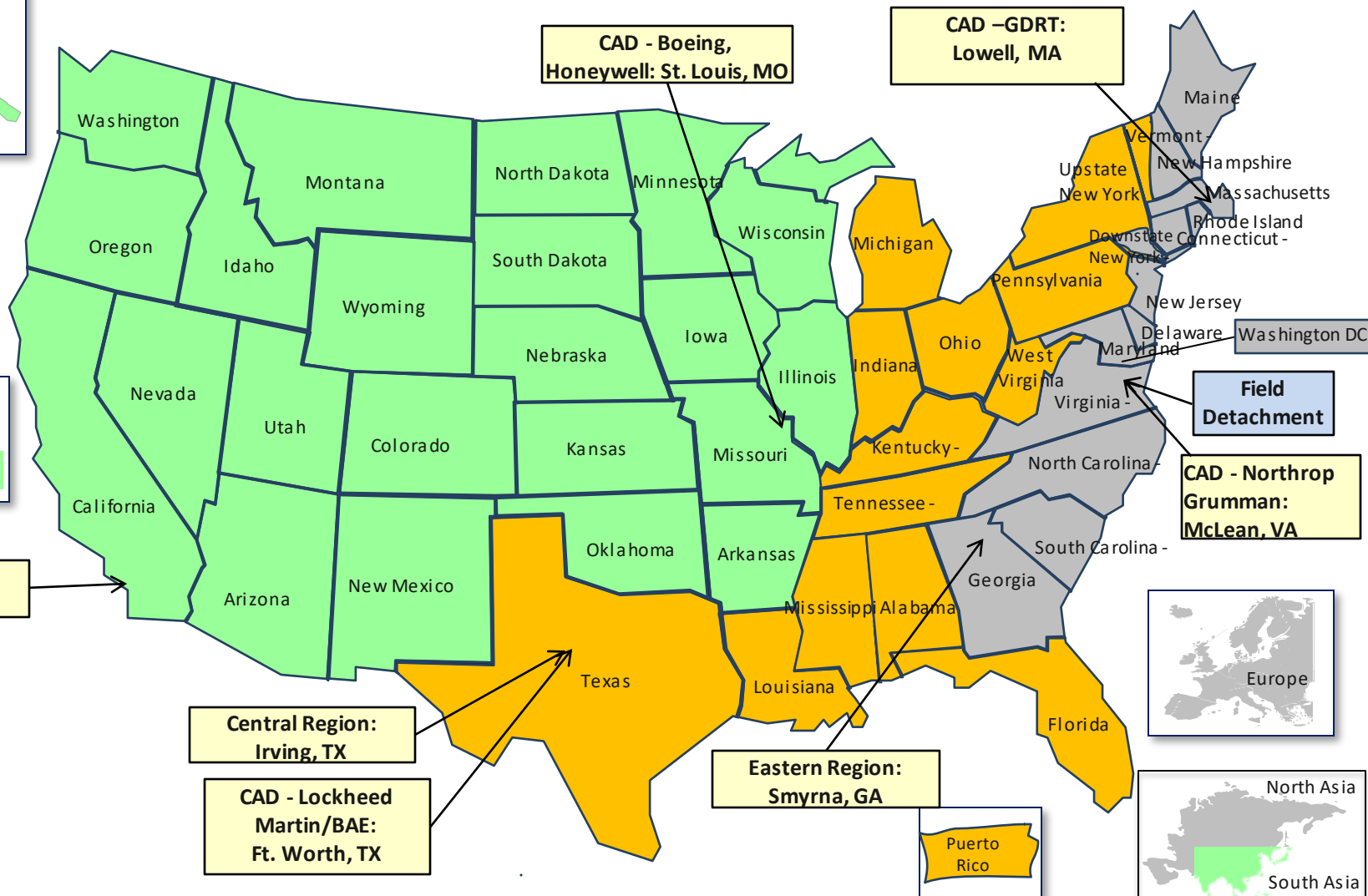


Our placement under the DoD Comptroller assures our independence from offices that have procurement responsibility within the services.

# DCAA Organization



## 3 Regions, Field Detachment, 4 Corporate Audit Directorates



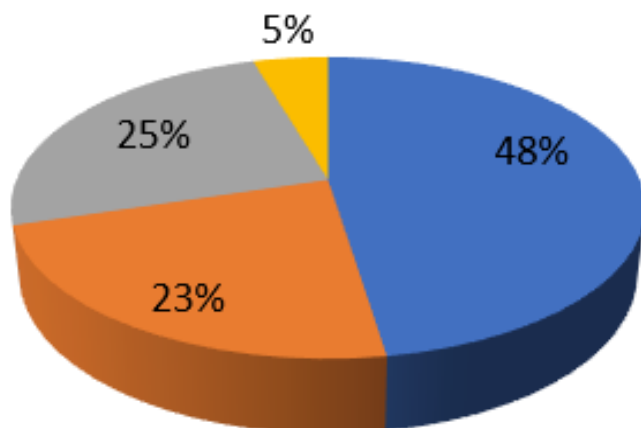
Field Detachment - 351 not shown above

One Agency, One Team, One Direction

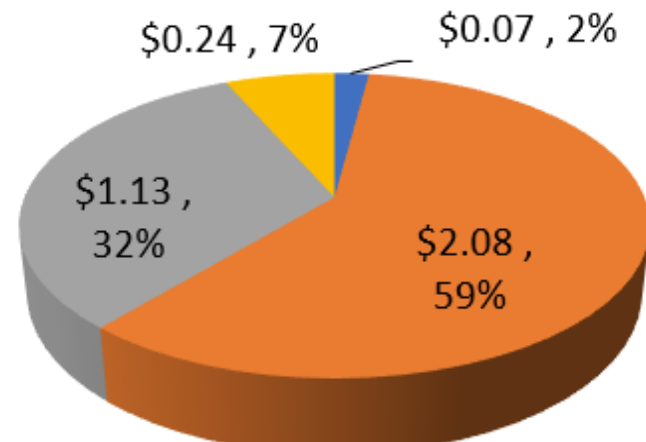
# FY 2023 Statistics

- Examined \$269.4 billion
- \$3.5 billion in net savings
- Return on investment of \$5.10 for every \$1 spent
- 2,314 audit reports issued

FY23 Audits Completed

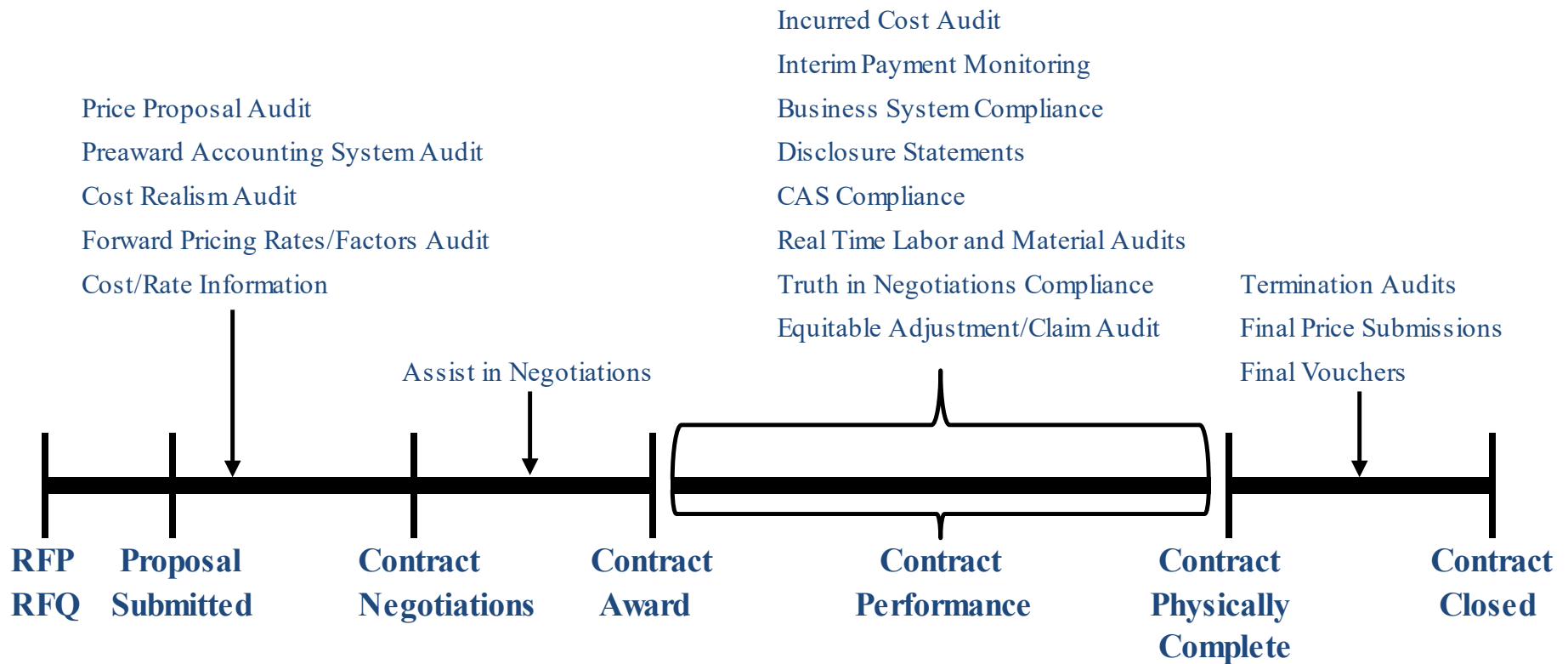


FY23 Net Savings (Billions) and Percentage



■ System, CAS, TIN 
 ■ Forward Pricing 
 ■ Incurred Cost 
 ■ Claims and Terminations

# Contract Life Cycle Involvement



# Many Resources Available


**DCAA**  
 DEFENSE CONTRACT AUDIT AGENCY

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[HOME](#) > [CUSTOMERS](#) > [GUIDANCE](#) > [AUDIT PROCESS OVERVIEW](#)



A helpful guide that provides information on the audit process, links to checklists, and more.

- [Information for Contractors](#)

**Help for Small Business**

DCAA Small Business

In addition to the information provided on this page, we have information to assist you in understanding the audit process. Access presentations below for help on specific topics important for smaller contractors:

- [Accounting System Requirements](#)
- [Contract Briefs](#)
- [Incurred Cost Submissions](#)
- [Monitoring Subcontracts](#)
- [Proposal Adequacy](#)
- [Provisional Billing Rates](#)
- [Public Vouchers](#)
- [Real-time Labor Evaluations](#)

**PROCESS OVERVIEW**

- Contract Pricing Proposal Adequacy Checklist
- Cost of Money Rates
- EZ-Quant Applications
- Forward Pricing Rate Proposal Adequacy Checklist
- ICE Model
- Incurred Cost Submission Adequacy Checklist
- Pre-award Accounting System Adequacy Checklist
- Contractor Submission Portal

**Guidance Navigation**

- [Audit Process Overview](#)
- [Directory of Audit Programs](#)
- [CAM - Contract Audit Manual](#)
- [Selected Area of Cost Guidebook: FAR 31.205 Cost Principles](#)
- [MRDS - Audit Guidance Memos](#)
- [CAS - Cost Accounting Standards](#)
- [FAR - Federal Acquisition Regulations](#)
- [DFARS - Defense Federal Acquisition Regulation Supplement](#)
- [GAGAS/Yellow Book](#)

INDEPENDENT TEAM TRUSTED ADVISOR SUPPORTIVE

SUPPORTING THE **WARFIGHTER**. PROTECTING THE **TAXPAYER**.

# DCAA Internet Resources

- **Guidance**

- Audit Process Overview – Information for Contractors Manual
- Directory of Audit Programs
- Contract Audit Manual
- Select Area of Cost Guidebook (FAR 31.205 Cost Principles)
- Links to Acquisition Regulations

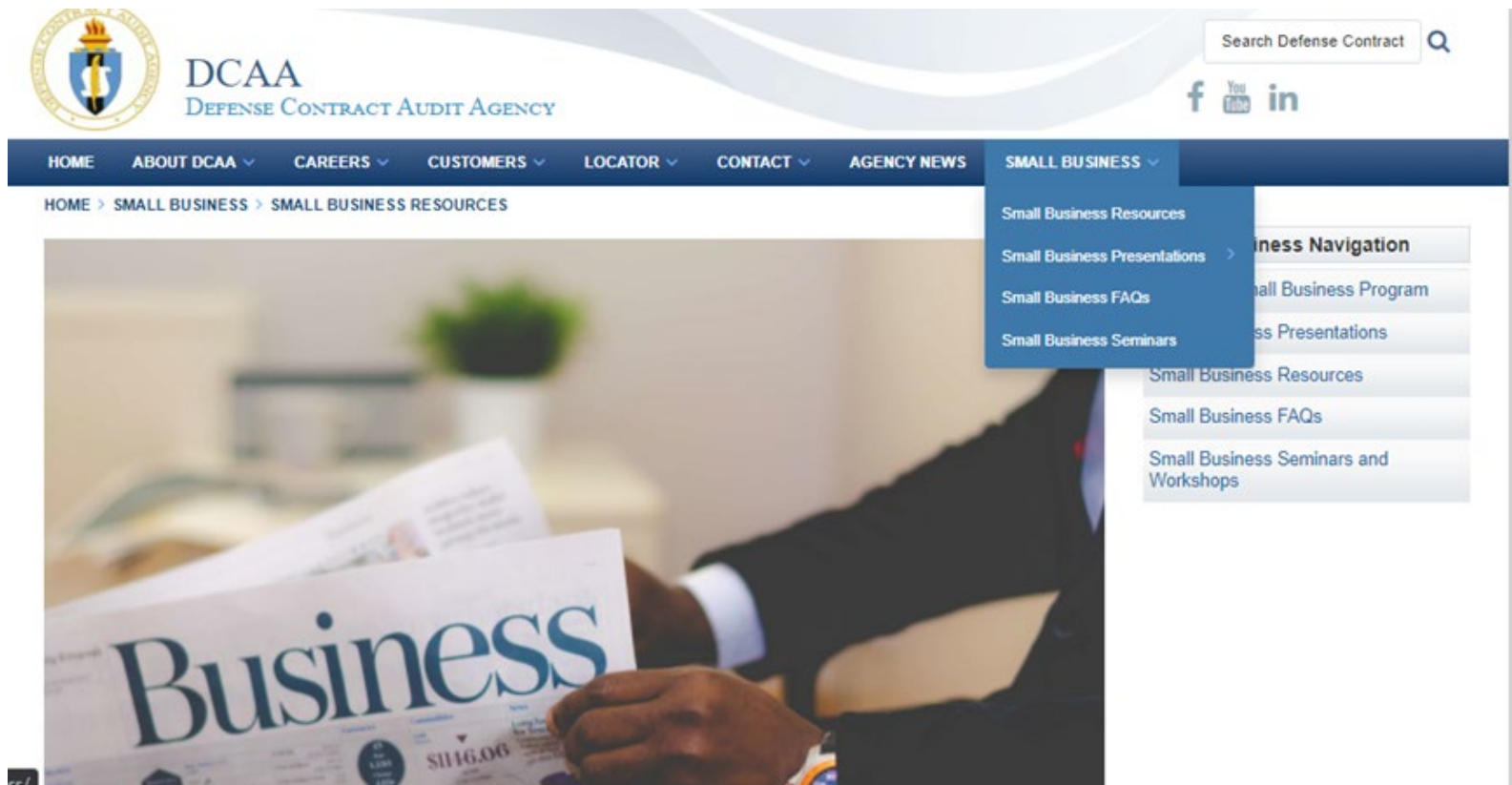


- **Checklists and Tools**

- Cost of Money Rates
- Incurred Cost Electronically (ICE) Model
- Contractor Submission Portal
- Adequacy Checklists - Preaward Accounting System, Contract Pricing Proposal, Forward Pricing Rate Proposal, Incurred Cost Submission, Termination Settlement Proposal.

- **Frequently Asked Questions For Contracting Officers, Contractors and COVID-19**

# Small Business Resources



The screenshot displays the DCAA (Defense Contract Audit Agency) website's Small Business Resources section. The header features the DCAA logo and name, a search bar for "Search Defense Contract", and social media links for Facebook, YouTube, and LinkedIn. The main navigation bar includes links for HOME, ABOUT DCAA, CAREERS, CUSTOMERS, LOCATOR, CONTACT, AGENCY NEWS, and SMALL BUSINESS. The SMALL BUSINESS dropdown menu is open, showing options: Small Business Resources, Small Business Presentations, Small Business FAQs, and Small Business Seminars. A secondary menu on the right, titled "Business Navigation", lists: Small Business Program, Small Business Presentations, Small Business Resources, Small Business FAQs, and Small Business Seminars and Workshops. The main content area features a large image of a person in a suit holding a newspaper with the word "Business" on the front page.

# All Things Small Business Podcast



43 min

PLAY ►

## All Things Small Business: Janice Muskopf (DPC) and Debbra Caw (DCAA)

All Things Small Business

Education

[Listen on Apple Podcasts](#) ↗



We bring together Ms. Janice Muskopf of DPC and Ms. Debbra Caw of DCAA with the aim of demystifying DPC "Pricing" and DCAA as they work together to support small businesses. By the end of this interview, small business owners will be better equipped to do business with the DoD.

[Episode Website](#) ↗

[More Episodes](#)

DAU (PROD)

# Overview of Audit Process

- **Adequacy Reviews**
- **Communication**
  - Entrance Conference
  - Walkthroughs
  - Notification Letter
  - Interim Discussions
  - Exit Conferences
- **Site Visits**
- **Requests for Information**

# Adequacy Reviews

- Many of the audits performed are evaluating a contractor's assertion such as:
  - Forward pricing proposal;
  - Final indirect rate proposal (Incurred Cost); and
  - Preaward accounting system design assertion
- When this is the case the audit process begins with DCAA assessing whether the assertion complies with the applicable regulation and is adequate for audit.

# Entrance Conference Overview

- An entrance conference with the contractor's designated representative(s) are held at the start of each separate audit assignment (or each group of assignments to be covered in a single field visit)
- Requestors / Contracting officers are invited to attend.
- Explains the purpose of the audit, the overall plan for its performance including the estimated duration, and generally the types of books, records, and other data with which the auditor will be concerned.

# Entrance Conference

## Discussions

- Discuss arrangements for any necessary work space and administrative support.
- Have the contractor designate primary and alternate officials with whom audit matters are to be discussed during the course of the assignment.

# Gaining and Understanding

- Discuss other pertinent information such as:
  - General background information about the contractor's organization and structure.
  - Discussions of assertions or policies and procedures.
  - Corrective actions taken to correct prior findings
  - Relevant other internal / external audit results.
  - Know or suspected fraud affecting audit subject matter.

# Walkthroughs

- Often during or shortly after the entrance conference we will request walkthroughs of an assertion and/or internal controls such as:
  - Proposal walkthrough
  - Incurred cost submission walkthrough
  - Internal control / process walkthroughs

# Notification Letters

- DCAA is required to send a notification letter to the contractor communicating certain information such as:
  - If the audit was requested or planned
  - Audit Assignment number
  - Audit Objective, compliance criteria, and scope
  - Management's responsibility
  - Auditor's responsibility
  - What to expect and when

# Site Visits

- Auditors will be at the contractor's site at times during the audit.
- Site visits could include main locations and satellite locations (sub-offices, manufacturing facilities, et cetera).

# Requests for Information

- Auditor will submit written or oral requests to contractors to provide cost or pricing data, supporting documentation, or provide responses to questions.
- General Expectations
  - Electronic information when possible
  - Timely responses and communicate delays
  - Ask for clarification if you are not sure about what we are asking
  - Provide support in an organized fashion

# Interim Discussions

- Through-out the audit, the auditor will discuss matters with the contractor and request additional support as necessary to obtain a full understanding of the subject to audit.
- The discussions will often disclose to the contractor any factual matters noted in the contractor's assertion, records, or supporting data.

# Exit Conferences

- To discuss the audit results and obtain the contractor's views concerning the findings, conclusions, and recommendations for inclusion in the audit report.
- Requestors / contracting officers are invited to attend.
- Held even if no findings or issues disclosed in audit.
- Some audits allow us to provide copies of our audit report note to the contractor while other types of engagements limit us to discussing only the factual differences.

# Audit Opinions

- Unqualified– The contractor’s proposed amounts comply, in all material respects, with solicitation terms related to pricing. DCAA did not identify any reportable issues during the audit.
- Qualified Opinion- The contractor’s proposed amounts comply, in all material respects, with solicitation terms related to pricing except for questioned amounts or audit procedures that were not performed.
- Adverse – The contractor’s proposed amounts do not comply with solicitation terms related to pricing.
- Disclaimer- More on that next!

# Audit Opinions: Disclaimer

- **Disclaimer – No audit opinion**
  - A disclaimer of opinion states that the auditor does not express an opinion on the subject matter under audit. A disclaimer is appropriate when the auditor has not performed an audit sufficient in scope to enable him or her to form an opinion on whether the proposed amounts comply, in all material respects, with solicitation terms related to pricing.
  - Opinion you may see if we performed agreed upon procedures.

# Frequently Asked Questions

1. How do I get a DCAA approved government accounting system?

- You cannot. There is no such thing as a DCAA approved government accounting system.

2. How do I request a DCAA audit of my accounting system?

- DCAA does not perform audits requested by a contractor. DCAA only performs these audits based on a request from a federal entity who is responsible for determining the acceptability of a contractor's system.

3. Is QuickBooks or any other accounting software applications acceptable accounting system for federal contracting?

- An accounting system is more than just a software package. It includes accounting methods, procedures, and controls. Many accounting software application can be part of an acceptable accounting system or set up in a manner that fails to meet the requirements of an acceptable system.

# Small Business Outreach Survey

We would love to hear about your recent experience with the DCAA Small Business Program, as we are committed to providing the best guidance possible and strengthening our nation's Defense Industrial Base. By participating in our survey, you will help us improve our courses, content and provide you with even better support as we continue to grow our program.



# Questions/Comments



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