

Defense Contract Audit Agency

DCAA

Dedicated to providing timely and responsive audits and financial advisory services



In Support of our National Defense



Defense Contract Audit Agency

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Defense Contract Audit Agency

- Established in 1965.
- Separate Agency of Department of Defense.
- Reports to DoD Comptroller.
- Performs all necessary contract audits for DoD
- Provides accounting and financial advisory services to all DoD components responsible for procurement and contract administration
- Provides contract audit services to other Government agencies as appropriate



Defense Contract Audit Agency

Organization:

- Headquarters - Fort Belvoir, VA
- Five Regional Offices
- Over 300 Field Audit Offices (FAO) and suboffices located throughout the United States and overseas
- Defense Contract Audit Institute – Memphis, TN



Defense Contract Audit Agency

- Agency staffing of approximately 4,000.
- Professional auditors comprise 86% of staff.
- 34% of the auditors are CPAs.



Branch Office Organization

- Managed by a Branch Manager
- Organized into teams
- Teams are led by a supervisory auditor who supervises a number of field auditors
- May also have one or several assigned technical specialists (subject matter experts available to assist the audit teams as needed)



QUESTION

When will small business owners hear from DCAA for the first time?

What triggers the first audit?



DCAA Services

Preaward Contract Audit Services:

- Price Proposals
- Preaward Accounting System Surveys
- Forward Pricing Labor and Overhead Rates



DCAA Services, Cont'd

Postaward Contract Audit Services:

- Incurred Costs/Annual Overhead Rates
- Truth in Negotiation Act Compliance
- CAS (Cost Accounting Standards) Compliance and Adequacy
- Claims
- Financial Capability



DCAA Services, Cont'd

Contractor Internal Control System Audits:

- Accounting
- EDP (Electronic Data Processing)
- Estimating
- Compensation
- Billing
- Budgeting
- Material Management
- Labor
- Purchasing
- Indirect and Other Direct Cost



WHAT TO EXPECT- THE DCAA AUDIT PROCESS

- ➡ Review Submission for **Adequacy**
- ➡ Establish **Mutually Acceptable** Date to Begin
- ➡ Conduct Entrance Conference
- ➡ Review Proposal Using Government Auditing Standards (GAGAS)
- ➡ Conduct Exit Conference
- ➡ Issue Audit Report to **Requestor**



GENERAL INFORMATION- ADEQUATE FAR PROPOSALS

- ① Distinction between submitting cost & pricing data & merely making books, records etc available without identification
- ① Requirement for submission is met when all accurate cost & pricing data, reasonably available to you, have been submitted either actually or by specific identification to the Contracting Officer or the CO's representative
- ① As later information comes into your possession, it should promptly be submitted to the Contracting Officer



GENERAL INFORMATION- ADEQUATE FAR PROPOSALS

- ① By submitting proposal, Contracting Officer granted right to examine records for basis for pricing proposal
- ① Examination takes place any time before award
- ① Examination may include books, records, documents, electronic files & other types of factual information permitting adequate proposal evaluation



TYPICAL PROBLEMS IN PROPOSALS

- Poor or no index of cost & pricing data
- Unallowable cost included in proposal
- Unsupported material, labor and ODC estimates
- No support for indirect expenses &/or improper allocation bases
- Proposal not mathematically correct
- Inadequate or poor accounting & estimating systems
- Supporting schedules do not reconcile to summary



Accounting System Review

- Preaward: to determine the acceptability of a contractor's accounting system for accumulating costs under a prospective Government contract.
- Postaward: to determine the adequacy of the accounting system for accumulating and billing costs on Government contracts.



Accounting System Review

Accounting System Review includes assessment to determine if:

- Direct costs properly segregated from indirect costs
- Direct costs identified/accumulated by contract
- Indirect costs allocated to Government contracts based upon relative benefits received or other equitable relationship
- Costs accumulated under general ledger control
- Employees' labor identified by intermediate or final cost objectives
- The labor distribution system charges direct and indirect labor to appropriate cost objectives
- Unallowable amounts excluded from costs charged to Government contracts



Financial Condition Risk Assessment & Financial Capability Audits

- Performed to determine if the contractor is financially capable of performing on Government contracts
- May be performed during the preaward or post contract award periods.



Financial Condition Risk Assessment & Financial Capability Audits

Type of financial information examined:

- financial statements, including those contained in reports issued to stockholders, lending institutions, and SEC filings,
- cash flow forecasts,
- loan agreements and evidence showing compliance with these agreements,
- aging of accounts receivable and payable,
- financial history of the contractor and affiliated concerns, and
- employee payroll tax returns (Federal).



Contract Financing (Billing) Methods

- Varies with the type of contract
- Cost-type contracts provide for interim payments for costs vouchered on a Standard Form 1034 public voucher
- Fixed-price contracts are subject to FAR Part 32 financing methods
 - cost-based progress payments
 - performance-based payments



Contract Financing (Billing) Methods

- Billing system and the contract costs subject to periodic audits by DCAA
- DCAA will, at a minimum, verify that:
 - the costs billed have been incurred in performance of the contract,
 - they are in agreement with the accounting records, and
 - they are in accordance with the contract terms



Incurred Cost Audits

Proposals should:

- ↙ include various indirect overhead and G&A rates
- ↙ be submitted within 6 months after end of the fiscal year
- ↙ include Certificate of Indirect Costs in accordance with FAR 42-703.2



Incurred Cost Audits

- ↙ If rates are auditor determined, once agreement is reached on the indirect rates, the contractor should sign an audit furnished indirect rate agreement
- ↙ If no agreement is reached, or if the rates are procurement determined, the audit report will be forwarded to the contracting officer for resolution/negotiation



Incurring Cost Electronic (ICE) Submission

- ↙ DCAA developed software available to contractors
- ↙ Provides contractors with an Excel based incurred cost electronic submission package
- ↙ Enables contractors to submit adequate incurred cost submissions in accordance with FAR 52.216-7



OBTAINING CONTRACTOR DATA IN ELECTRONIC FORM

Enables
auditor to **maximize**
use of data already created
and thereby **reduces audit**
time and **improves**
proficiency



Benefits to Auditor

- Can modify electronic information for audit work papers and report without recreating basic document
- Ease of data analysis and statistical sampling
- Faster turnaround of audit
- Less paper, less time, and less cost to taxpayer.



Benefits to Contractor

- Less time doing audit and using contractor facilities and resources
- Faster resolution of audit issues and problems
- Less expense in producing hard copies of documents for auditors
- Faster turnaround in contract awards and payment for services.



Defense Contract Audit Agency

Available Resources:

- DCAA Website: www.dcaa.mil
- Audit Guidance:
 - Open Audit Guidance
 - Standard Audit Programs
- Publications:
 - Information for Contractors
 - Contract Audit Manual (CAM)



DCAA Pamphlet Information for Contractors (DCAAP 7641.90)

- To assist contractors in understanding applicable requirements
- To help ease the contract audit process
- Examples in pamphlet are intended solely to provide better insight into the procurement process and should not be construed as uniform guides



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COMMENTS/QUESTIONS