



DCAA

DEFENSE CONTRACT AUDIT AGENCY

DCAA Update



John Gilbert, Regional Audit Manager
DCAA Central Region

INDEPENDENT

One Agency, One Team, One Direction

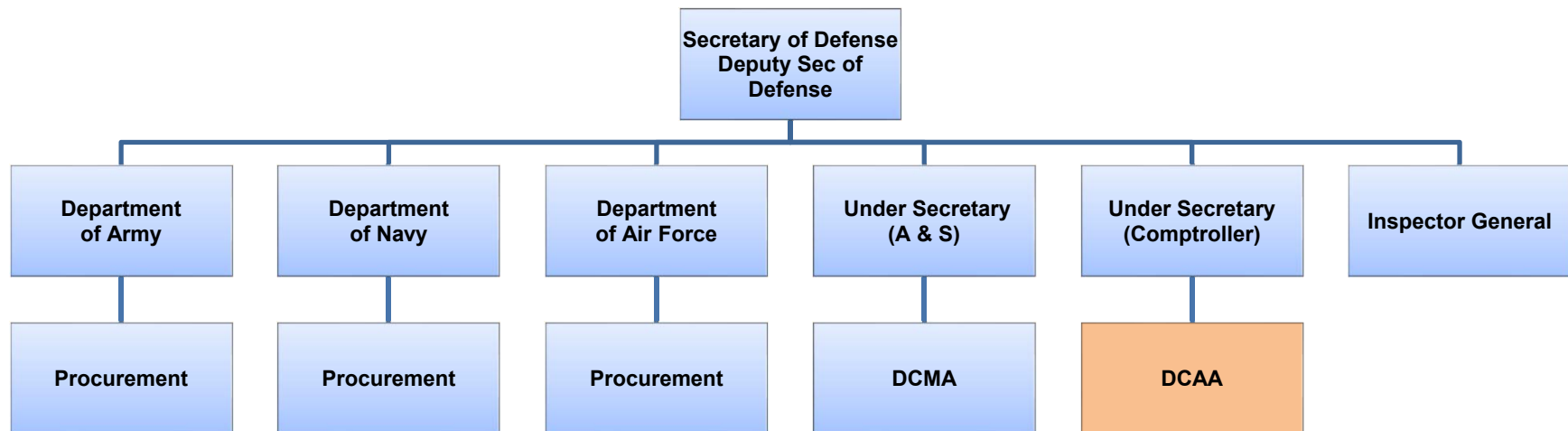
One Agency – One Mission

- DCAA Mission and Organization
- Incurred Cost
- Forward Pricing
- Agency Initiatives
- GFY 2020 Priorities

DCAA Mission

As a key member of the government acquisition team, we are dedicated stewards of taxpayer dollars who deliver high quality contract audits and services to ensure that warfighters get what they need at fair and reasonable prices.

Department of Defense Organization



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

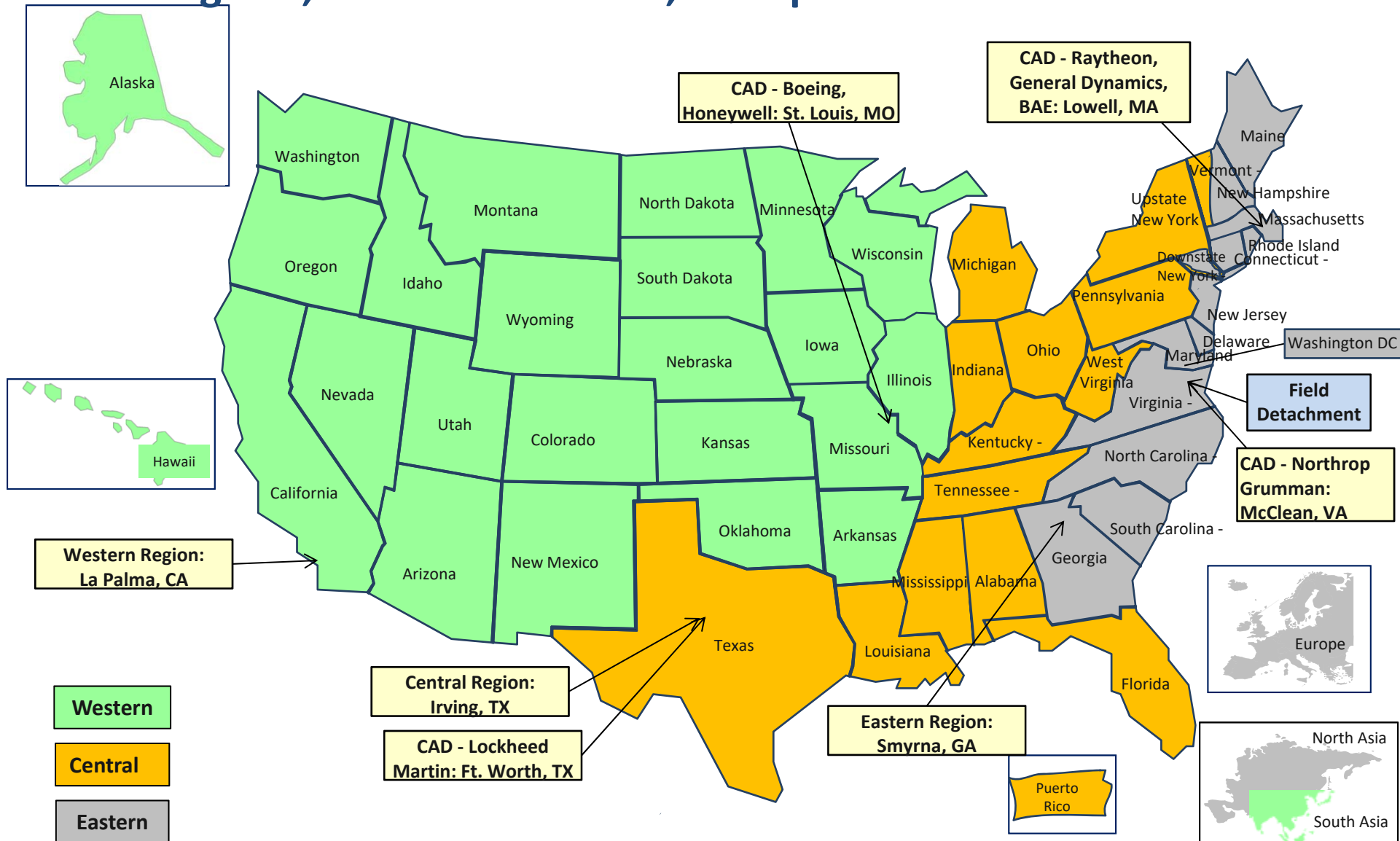
Defense Contract Audit Agency

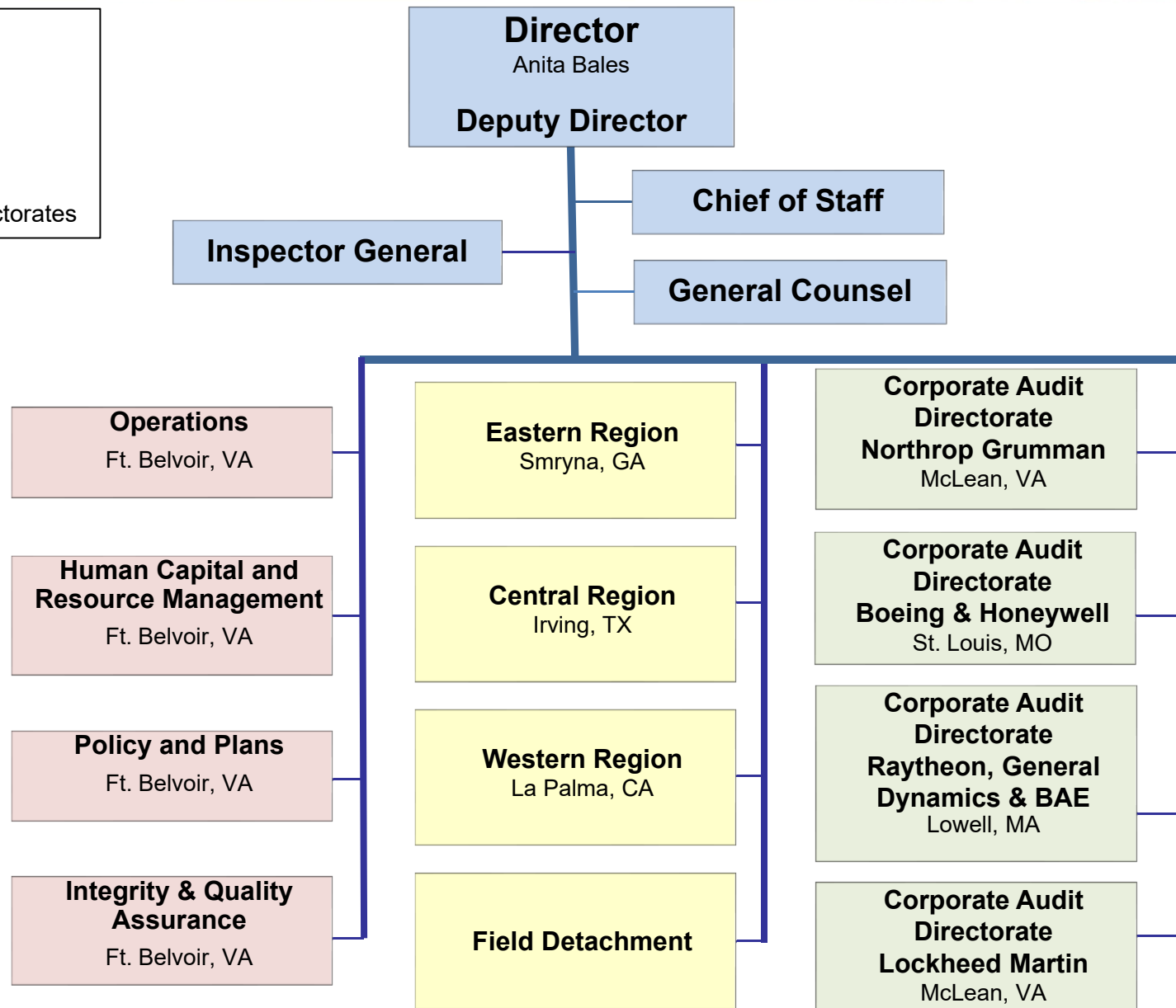
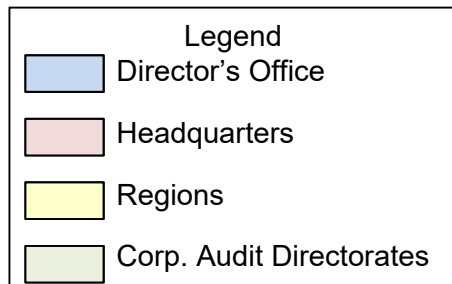
- Approximately 5, 000 employees located at over 300 offices throughout the United States and overseas.
- Responsibilities and Duties:
 - Perform all needed contract audits for DoD
 - Perform accounting and advisory services to DoD (and Civilian when requested) acquisition and contract administration components during all contract phases:
 - Preaward
 - Contract Execution
 - Settlement (Contract Closing)

DCAA Reorganization

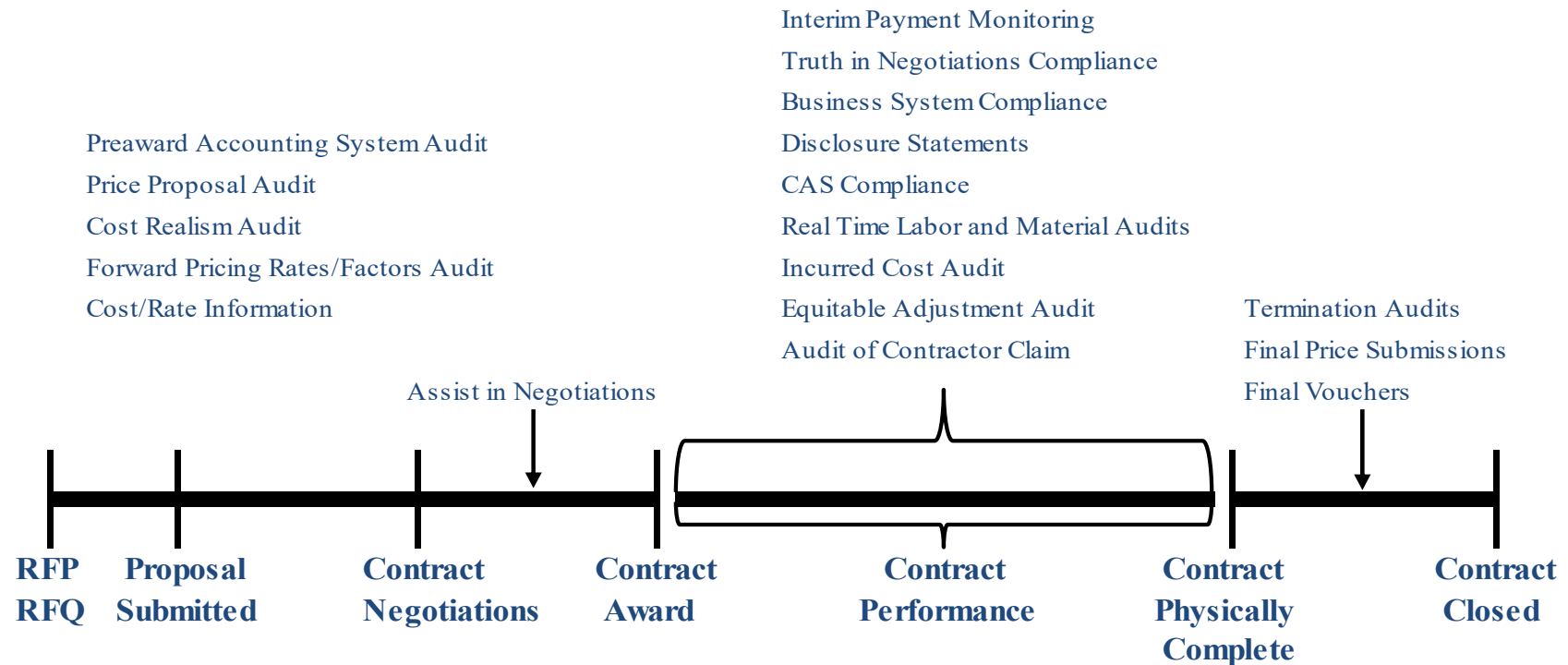
- Flexibility and responsiveness to our customers
- One senior executive point of contact for customer/major contractor leadership
- Developing a more efficient, effective, and innovative audit process
 - Building synergy
 - Challenging prior processes
- Improving communication and collaboration
- Proven results – significant improvement in audit timeliness

3 Regions, Field Detachment, 4 Corporate Audit Directorates





DCAA's Involvement in the Acquisition Process



DCAA Products and Services

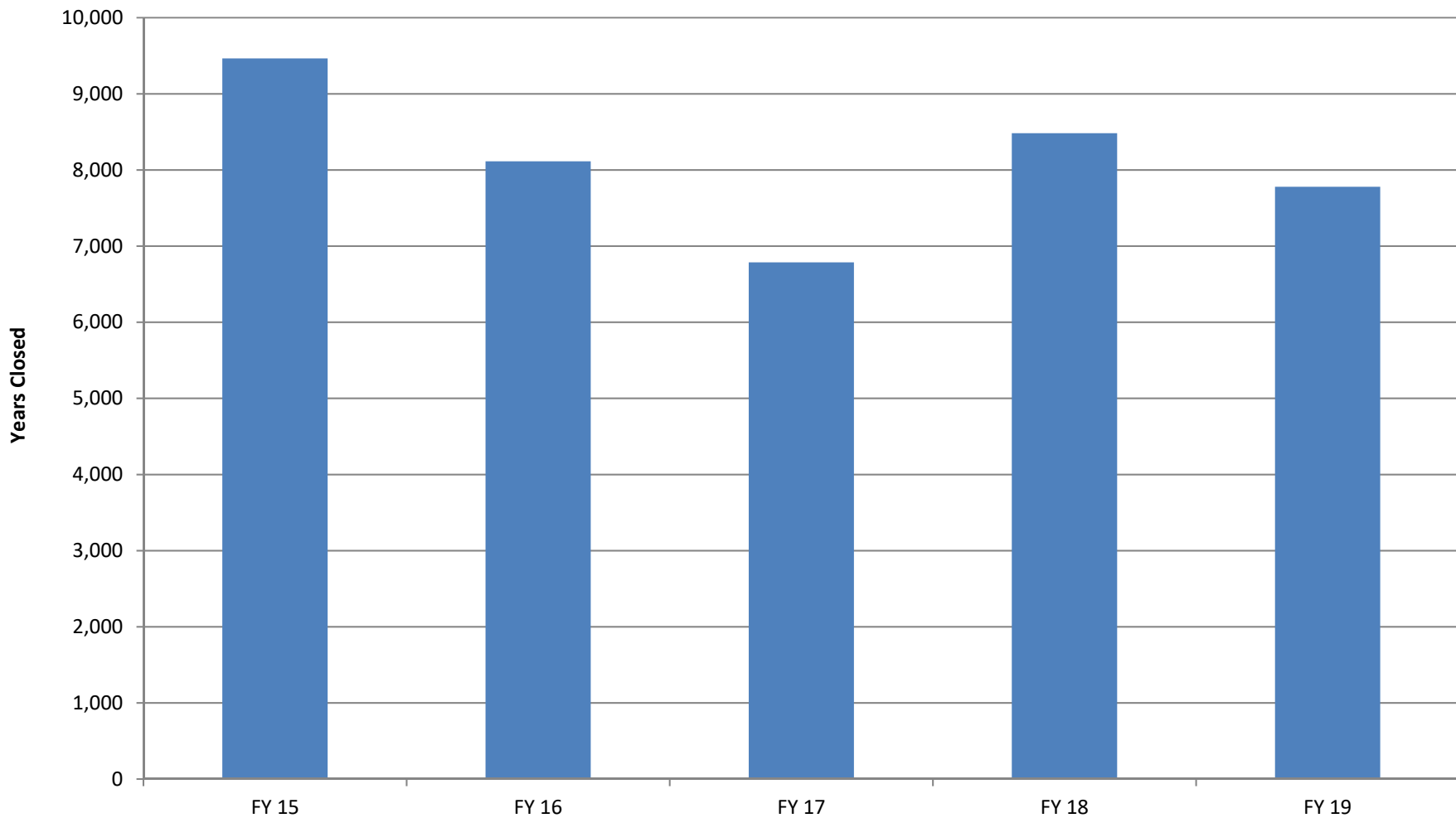
Prior to Contract Award	During Contract Performance	During Contract Close-Out
Complete Proposal Audit Examination of an entire proposal - All cost elements	Interim Payment Monitoring Processing & testing of vouchers submitted for payment and/or paid on contracts, to include examination of progress payment requests	Termination Audits Examination of contractor proposals for costs related to contract termination
Audit of Part of a Proposal Examination of one or more cost elements or parts of a cost element	Business System Compliance Examination of contractor's systems and internal controls for compliance with DFARS criteria & early Identification & reporting of system deficiencies	Final Price Submissions Effort expended to accumulate audit findings and conclusions from all audits related to cost incurred for a specific fixed-price incentive or fixed-price re-determinable contract or subcontract
Audit of Forward Pricing Rates Examination of a contractor's direct and indirect rates	CAS Compliance & Disclosure Statement Examination of contractor compliance with applicable CAS standards, reporting of noncompliance(s), & examinations of Cost Impact Proposals as well as support for Disclosure Statement determinations	Final Vouchers Support for Contracting Officer assessment of final contract vouchers to allow for timely contract close-out
Cost Realism Audit Examination to ascertain potential cost understatements and overstatements	Real-time Labor & Material Audit Examination of critical contractor internal controls over labor and material costs accumulated, reported and billed on contracts	
Cost / Rate Information Sharing of contractor's direct and indirect rates available in related audit files.	Incurred Cost Audit Annual examination of contractor costs incurred on all contractor flexibly priced contracts.	
Pre-Award Accounting System Audit Examination of prospective contractor's accounting system	Truthful Cost or Pricing Data Compliance Examination of contract awards for compliance with truth in negotiations requirements	
Fact-Finding/Negotiation Support Advisory effort to support contracting officer's negotiations	Audits of Equitable Adjustments/Claims Examination of contractor proposals for Equitable Price Adjustments	

Incurred Cost Process

- Incurred cost proposals will be evaluated upon receipt for adequacy in accordance with FAR 52.216-7
- Adequate incurred cost proposals exceeding \$250 million in auditable dollar value will be audited
- Other incurred cost proposals received and determined adequate will be assessed for risk and classified as high or low risk
- High-risk adequate incurred cost proposals will be audited
- Low-risk adequate incurred cost proposal will be sampled using sampling parameters



Incurred Cost Years Completed

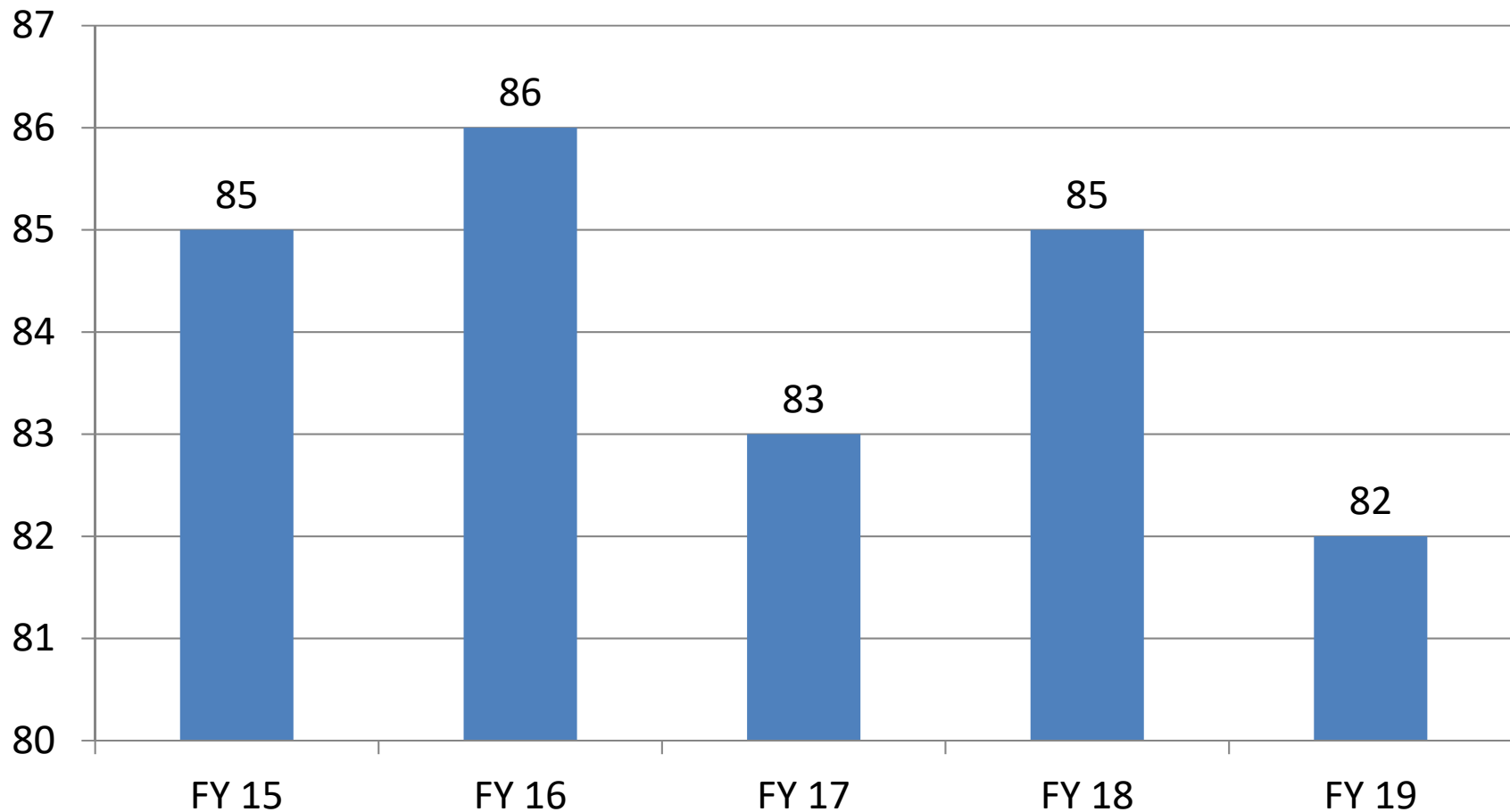


Forward Pricing Strategy

- DCMA/DCAA Joint Communication Plan
 - Early Coordination
 - Responsive to the Buying Commands
 - Eliminate Duplication
- Tailoring Audits to meet the Customers needs
- Timely Completion of Audits



Forward Pricing Proposal Audits Elapsed Days



Current Agency Initiatives

- Meeting the 2018 NDAA Incurred Cost Requirements
- Reducing unsupported costs reported in forward pricing audits
- Contractor business system initiative
- DCAA services available to buying commands for Other Transaction Agreements (OTAs)
- DCAA's Industry outreach initiative

Incurred Cost Initiatives in Response to the 2018 NDAA

Section 803 – Performance of Incurred Cost Audits

- Requires adequacy assessment within 60 days of receipt of submission
- Audits must be completed within one year of receiving an adequate submission unless a waiver is obtained
- No multi-year audits unless requested by the contractor
- Comply with commercially accepted standards of risk and materiality in the performance of each incurred cost audit by October 1, 2020
- Use of qualified private auditors to maintain an appropriate mix of Government and private sector capacity to meet the current and future needs of the Department of Defense for the performance of incurred cost audits by April 1, 2019

Reducing Unsupported Costs In Forward Pricing Audits

- Inadequate prime/higher tier contractor cost or price analyses were the leading cause of unsupported costs in proposal audits.
- DCAA revised our guidance in this area which should reduce the amount of costs classified as unsupported in our audit reports.

Reducing Unsupported Costs In Forward Pricing Audits

- DCAA will not classify costs as unsupported unless unable to obtain sufficient appropriate evidence through performing alternative procedures.
- DCAA will report FAR 15 noncompliance with completion schedule for amounts associated with incomplete or inadequate cost or price analysis.

Contractor Business System Initiative

- The Department of Defense Federal Acquisition Regulation Supplement (DFARS) Contractor Business Systems (CBS) regulations became final February 24, 2012
 - Recognized six contractor business systems
 - Established business system audit criteria
 - Established contractor responsibility for acceptable systems that comply with DFARS criteria
 - Established Government Withhold Authority for systems determined to not be in compliance with applicable criteria

Contractor Business System Initiative

The 6 DFARS identified systems are:

Defense Contract Audit Agency Cognizance

- DFARS 252.215-7002 – Cost Estimating System Requirements
- DFARS 252.242-7004 – Material Management and Accounting System
- DFARS 252.242-7006 - Accounting System Administration

Defense Contract Management Agency (DCMA) Cognizance

- DFARS 252.234-7002 – Earned Value Management System
- DFARS 252.244-7001 – Contractor Purchasing System Administration
- DFARS 252.245-7003 – Contractor Property Management System Administration

Contractor Business System Initiative

- Audits of CBS adds value to the acquisition process. Contractor business systems produce critical data that help contracting officers negotiate and manage defense contracts. These systems and their related internal controls act as important safeguards against fraud, waste, and abuse of federal funding. Federal and DoD acquisition regulations and DoD policies require that DoD take steps to complete the audit for certain business systems.
- As part of DCAA's commitment to CBS oversight, DCAA is planning on increasing the number of CBS audits performed.

Post Award Accounting System Audit

- Performed to examine smaller less complex contractor accounting systems after contract award
- Usually performed when:
 - A follow-up to the preaward survey is recommended
 - A preaward survey was not performed prior to award and the contracting officer determines that an audit is now required to support contract requirements
 - Risks are identified by the auditor or contracting officer

DCAA Services Available on Other Transactions Agreements (OTAs)

- What are OTAs?
 - Legal acquisition instruments other than contracts, grants, or cooperative agreements
 - Not subject to the FAR, its supplements, or laws that are limited in applicability to procurement contracts
- DCAA established an initiative to determine what services we can provide to buying commands for OTAs.

DCAA Industry Outreach Initiatives

DCAA has several programs underway to support our Industry Outreach Goals. Some of the current programs are as follows:

- Strategic Action Team
- Small Business Assistance

(Contact Information: dcaa-oal-smallbusinessfocalpoint@dcaa.mil)

- Industry Briefings

FY 2020 Priorities

FY 2020 moving forward – increasing the Agency audit effort in:

- Business Systems Audits
- Truth in Negotiations Audits
- Real-time Labor and Material Audits
- Paid Voucher Audits

Questions