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Collaborative Contract Management
Training:
Embracing Change in a Dynamic Environment

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NCMA
National Contract Management Association
Understanding the DCAA Audit Process and How to Prepare for Success

Breakout Session #: C11
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Date: July 22, 2013
Time: 4:00-5:15
Agenda

- DCAA’s Mission
- Compliance Updates
- Types of Audits
- Preparing for the Audit and Best Practices
- Resources Available
- Questions
DCAA’s Role

• Mission
  – To perform all necessary contract audit services for the Department of Defense (DoD)
  – Accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for procurement and contract administration
  – Ensure taxpayer dollars are spent on fair and reasonable contract prices
  – Provide contract audit services for other federal agencies, e.g., NASA, FAA, DOT, DOE, etc.
Compliance Updates

• DCAA is not an advisory service
• Pass/Fail environment
• Proof of accounting system in operation
• Calculation of indirect rates on-the-spot
• Statement of Conditions and Recommendations (SOCAR)
• Expect delays
Types of Audits

- Pre-award Contract Audit Services
  - Pre-Award Accounting System Survey, SF 1408
  - Financial Capability, SF 1407
  - Cost/Price Proposals
  - Forward Pricing Labor and Indirect Rates
Types of Audits

• Post-award Contract Audit Services
  – Post-Award Audit
  – Incurred Cost Proposals
  – TINA Compliance
  – Cost Accounting Standards
  – Claims
Types of Audits

• Contractor Business Systems Audits
  – Accounting
  – Estimating
  – Electronic Data Processing (EDP)
  – Billing
  – Materials Management
Types of Audits

• Pre-Award Accounting System Survey
  – FAR Part 16.301-3
    – a cost reimbursement contract may only be used when the contractor’s accounting system is adequate for determining costs applicable to the contract; and
    – Appropriate government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used
  – Results are adequate or inadequate
  – Contract type NOT size or revenue triggers an audit
  – T&M Contract Trends for Prime and Subcontractors
Types of Audits

• Pre-Award Accounting System Survey
  – Accumulation of Costs under General Ledger control
  – Interim (at least monthly) determination of costs charged to a contract through routine postings to books of account
  – Proper segregation of **direct costs** from **indirect costs**
  – Exclusion from costs charged to government contracts of amounts which are not **allowable** in terms of FAR Part 31, Contract Cost Principles and Procedures, or other contract provisions
  – A timekeeping system that identifies employees’ labor by intermediate or final cost objectives
Types of Audits

• Pre-Award Accounting System Survey
  – A labor distribution system that charges direct and indirect labor to the appropriate cost objectives
  – Identification and accumulation of direct costs by contract
  – A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives
  – Identification of costs by contract line item and by units (as if each unit or line item were a separate contract) if required by the proposed contract
  – Payment of vendor within terms
Types of Audits

• Post-Award
  – Directed at determining the adequacy of the accounting system for segregation and billing of costs as required by the contract
  – Proper segregation of costs
  – Direct costs by contract (subsidiary job cost ledger)
  – Direct labor
    • Timekeeping system,
    • Labor distribution
Types of Audits

• Pre- vs. Post-Award
  – Pre-award tests the accounting system is operable, though not necessarily in use, i.e., CAN the system do it,
  – Post-award tests DOES the accounting system segregate and accumulate costs by direct and indirect costs on a job cost basis
Types of Audits

• Proposal Audit
  – DCAA no longer perform field pricing audits on cost-type proposals less than $100M and fixed price proposal less than $10M effective 10/18/10
  – DCMA will be responsible for field pricing assistance below these dollar thresholds
Types of Audits

• Proposal Audit
  – Chapter 3 of DCAA’s Information for Contractor’s Guide provides guidance on proposal requirements, DCAA audit evaluations, and examples
  – Must show how indirect rates are computed AND applied
  – Must show trends and budgetary data with explanations to support reasonableness
Types of Audits

- Proposal Audit
  - Provisional Billing Rates
    - Are approved solely for billing purposes per FAR 42.704, and are not the same as forward pricing rates
    - Provide a method for interim reimbursement of indirect costs during contract performance
    - May be the basis for forecasted rates in the present year, but it is not a substitute for future price analysis
Types of Audits

- Proposal Audit
  - Provisional Billing Rates
    - DCAA examines the estimating rationale for the development of the indirect rates with supporting documentation for the future periods of contract performance
    - Failure to provide such documentation will result in the proposal being deemed inadequate and the proposal will be returned to the requestor
Types of Audits

• Proposal Audit
  – Provisional Billing Rates
    • If asked by the requestor to proceed with the audit, DCAA will consider the indirect costs unsupported, which could lead to an adverse opinion on the proposal
  – Contract Pricing Proposal Adequacy Checklist
    • www.dcaa.mil
Types of Audits

• Incurred Cost Proposal
  – Allowable Cost and Payment Clause at FAR 52.216-7
  – Incurred cost proposals are due within 6 months after the contractor’s fiscal year end
  – A model incurred cost electronically (ICE) model can be found at www.dcaa.mil
Types of Audits

• Incurred Cost Proposal
  – Instructions on how to complete the ICE can be found in the Information for Contractor’s Guide
  – Require a Certificate of Indirect Costs at FAR 52.703-2 (Schedule N of ICE)
  – Incurred Cost Submission Adequacy Checklist
    • www.dcaaa.mil
Types of Audits

• Incurred Cost Proposal
  – Incurred cost audits include an evaluation of direct and indirect costs to determine whether costs are
    • Reasonable
    • Allocable
    • Allowable
  – Penalties can be assessed at FAR 42.709
  – Part of the contract close-out process
Preparing for the Audit: Best Practices

• **DON’T PANIC**

• Inquire as to the purpose of the visit, i.e., what type(s) of audit are they performing
Preparing for the Audit: Best Practices

• Request an entrance conference and a list of items you can prepare in advance of the visit
  – 12/15/10 – DCAA is required to provide a notification letter to the contractor during the planning phase of the audit on the nature and scope of the audit, either during or shortly after the entrance conference
  – The notification letter is not supposed to replace the entrance conference
Preparing for the Audit: Best Practices

• Request or download and review the audit program at www.dcaa.mil

• Understand what the auditor is asking for and control responses

• Ask why the auditor is requesting the data if you are uncertain as to the purpose

• Maintain good records and documentation
Preparing for the Audit: Best Practices

• Request interim audit results to mitigate potential negative comments/results

• Get your “house in order” before the audit
  – Accounting System
  – Estimating System
  – Budgeting and Forecasting
  – Timekeeping
  – Travel & Expense
  – Purchasing
  – Education and training of employees
  – Analyze key accounts
Preparing for the Audit: Best Practices

• Request an exit conference
• Respond to draft reports quickly and obtain outside assistance if needed
• Respond accurately and quickly, but not so quickly as to jeopardize your preparation and audit success
• Request a copy of the final audit report for your records
Resources

• Federal Acquisition Regulations (FAR) Part 31, Cost Principles

• www.dcaa.mil
  – Information for Contractor’s Guide
  – DCAA Office Locator
  – Incurred Cost Electronically (ICE)
  – Contract Audit Manual
  – Adequacy Checklists
  – Open Audit Guidance
  – Standard Audit Programs
Questions???

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