Your Presenters

David Eck
Dixon Hughes Goodman LLP
214.334.3233
david.eck@dhgllp.com

Mike Mardesich
Dixon Hughes Goodman LLP
703.970.0508
mike.mardesich@dhgllp.com

Jason Besser
Chief, Pricing & Special Projects Division
Defense Contract Audit Agency

Sherry Kobus
Small Business Program Manager
Defense Contract Audit Agency
571.448.2008
dcaa-oal-smallbusinessfocalpoint@dcaa.mil
DCAA Guidance

- DCAA Contract Audit Manual (CAM)
- Directory of Audit Programs
- Selected Areas of Cost Guidebook – FAR 31.205 Cost Principles
- Variable Sampling Guidebook
- Attribute Sampling Guidebook
- Audit Guidance Memorandums (AGMs)
- DCAA Strategic Plan 2016 – 2020
- DCAA Small Business Initiatives

www.dcaa.mil
CAM Contents – Updated Sept 2016

- Foreword and Introduction to the DCAA Contract Audit Manual
- Chapter 1 Introduction to Contract Audit
- Chapter 2 Auditing Standards
- Chapter 3 Audit Planning
- Chapter 4 General Audit Requirements
- Chapter 5 Audit of Policies, Procedures, & Internal Controls Relative to Accounting & Management Systems
- Chapter 6 Incurred Costs Audit Procedures
- Chapter 7 Reserved - Go to Selected Areas of Cost Guidebook
- Chapter 8 Cost Accounting Standards
- Chapter 9 Audit of Cost Estimates and Price Proposals
- Chapter 10 Preparation and Distribution of Audit Reports
• Chapter 11 Audit of Contractor Compliance with Contract Financial Management Requirements
• Chapter 12 Auditing Contract Termination, Delay/Disruption, & Other Price Adjustment Proposals or Claims
• Chapter 13 Audits at Educational Institutions, Nonprofit Organizations and Federally Funded R&D Centers (FFRDCs)
• Chapter 14 Other Contract Audit Assignments
• Chapter 15 Other DCAA Functions
• Appendix A Contract Cost Principles and Procedures
• Appendix B Specialist Assistance
• Topical Index
DCAA CAM Recent Updates

• Interest Rate Update
  – The interest rate established by the U.S. Secretary of the Treasury for Cost of Money purposes is 2.5 percent for the period January 1 through June 30, 2016. (Jan 2016) (Ref 8-414.2)

• Internal And External Specialist
  – DCAA updated CAM Appendix D, Section 100 to reflect the GAGAS requirements for using the work of a specialist and to document the DCAA Headquarters evaluation of the objectivity of internal specialists and external specialists employed by DoD. Additionally, DCAA consolidated Appendix D Sections 200 and 300 into Section 100. (Feb 2016) (Ref Appendix D)

• Judgmental Selection Example
  – The CAM 4-403(g)(4) example wording for documentation of judgmental selection techniques has been expanded to reflect the need for sufficiently describing considerations that result in adequate audit coverage of the universe. (Feb 2016) (Ref 4-403(g)(4))
DCAA CAM Recent Updates – cont.

• DoDIG Contract Audit Fraud Scenarios
  – The examples of Indicators of Fraud Risk in the GAGAS Appendix 1, Section A.10, and the risk factors shown in AU-C 240.A75 (Appendix A). (July 2016) (Ref 4-702.3(g))

• Interest Rate Update
  – The interest rate established by the U.S. Secretary of the Treasury for Cost of Money purposes is 1.875 percent for the period June 30 through December 31, 2016. (July 2016) (Ref 8-414.2)

• IC Adequacy Checklist
  – The Incurred Cost Adequacy Checklist has been updated to clarify the need to determine if the contractor is using a blending approach upon receipt of the proposal, and take appropriate actions as discussed in MRD 16-PSP-007 dated June 30, 2016. (July 2016) (Ref 10100)
DCAA CAM Recent Updates – cont.

• Materials Management and Accounting System (MMAS) Audit Program
  – The MMAS audit program (activity code 12500) has been updated for the DFARS Business System Rule. DCAA’s Business System Team has successfully performed numerous audits using this new audit program that emphasizes auditing processes in a team approach. The updated MMAS should be used for all future MMAS audits. (July 2016) (Ref 12500)

• Testing of Paid Vouchers
  – DCAA updated the Proforma Notification to Payment Office memorandum which was previously used for multiple audits and is now tailored specifically for the Testing of Paid Voucher Audit. DCAA updated the Testing of Paid Voucher audit program to include additional steps related to the entrance conference, notification to the contractor and the ACO, gaining an understanding of controls for subcontract billings, and the concluding steps. (August 2016) (Ref 11015)
DCAA CAM Recent Updates – cont.

• Financial Capability Trend Analysis Workbook
  – The Trend Analysis Workbook for use when DCMA does not have financial condition data is now available in the DCAA intranet. This workbook is being made available to facilitate trend analysis of contractor’s key financial statement elements for documenting consideration of inherent risk. (August 2016) (Ref Multiple)

• Reporting of Exit Conference
  – DCAA revised the Proposed Amounts Audit Report Template to address the unique restrictions and reporting of audit results with the contractor at an exit conference for a Cost Impact, Forward Pricing, Termination, and Claim Audit. (August 2016) (Ref Multiple)

• Compensation Caps
  – DCAA has updated CAM 6-414.7 in accordance with the 41 U.S.C 1127, the Office of Federal Procurement Policy published benchmark compensation amounts of $980,796 for 2013 and $1,144,888 for 2014. The benchmark compensation caps apply to both Defense and Civilian agencies for the applicable periods. The applicability of the caps was expanded to all employees on defense contracts (DoD, NASA, and Coast Guard) as a result of the National Defense Authorization Act (NDAA) for 2012. Additionally, section 702 of the Bipartisan Budget Act of 2013 established a compensation cap applicable to all employees and all agency contracts awarded on or after June 24, 2014 of $487,000; therefore, DCAA audit teams need to account for both compensation caps for 2014 and subsequent years in auditing allowable compensation. (September 2016) (Ref 6-414.7)
• Pre and Post Payment Review of Interim Public Vouchers
  – DCAA revised CAM 6-1000 Section 10 to align with the changes in DCAA billing oversight process, which is the pre- and post-payment process. (September 2016) (Ref 6-1000)

• MAARS Control Log
  – DCAA updated the MAARS Control Log references to ensure the appropriate audit program step in the latest post year end incurred cost audit program is reflected. (September 2016) (Ref 10100)
Other DCAA CAM Updates

• CAM 8-200 on Disclosure Statement Adequacy replaced by DCAA AGM 14-PAC-010, June 26, 2014
  – DCAA no longer will evaluate adequacy as part of the scope of any Disclosure Statement audit. Instead, audit teams will review the submission for adequacy prior to accepting the engagement. The objective of a Disclosure Statement audit will be solely to determine whether the disclosed practices comply with Cost Accounting Standards (CAS).
  – CAS audit reports now will describe the CAS noncompliance found in these assignments.

• DCAA Audit Report Format Update – CAM Figure 10-2-1
  – Executive Summary
    o “About this Company”
    o “About this Audit”
    o “What we Found”
DCAA Directory of Audit Programs

- Incurred Cost
- Labor Floorchecks
- Consultant and Professional Services
- Purchase Existence
- Billings and Progress Payments
- Accounting Systems
- Contract Termination
- Disclosure Statement and CAS Compliance
- Forward Pricing Proposals and Rates
- Post Award
DCAA has created a new resource to replace the Contract Audit Manual Chapter 7 Selected Areas of Cost.

The new landing page at dcaa.mil is a resource for auditors and contractors which includes an addition of 23 additional chapters and 13 updated chapters to address specific areas of cost. – FAR 31.205 Cost Principles

- Bonus and Incentive Compensation
- Depreciation
- IR&D/B&P
- Legal
- Royalties
- Pensions
- Manufacturing and Production Engineering
- Joint Ventures and Teaming Arrangements
- Insurance
- Idle Facilities and Idle Capacity
- Patents
- Consultants
- Alcoholic Beverages
### Other DCAA Guidebooks and Tools

- Variable Sampling Guidebook
- Attribute Sampling Guidebook
- E-Z Quant software

<table>
<thead>
<tr>
<th>Sampling Unit</th>
<th>Variable Sampling</th>
<th>Attribute Sampling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Material</td>
<td>Determine the amount of any improper charges to government contracts.</td>
<td>What percent of the purchases were made without competition? (Estimation Sampling)</td>
</tr>
<tr>
<td>Purchase Order</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor Transfers</td>
<td>Determine the amount of unallowable or unallocable labor cost transferred.</td>
<td>Was an explanation justifying the labor transfer present? (Acceptance Sampling)</td>
</tr>
<tr>
<td>Labor Journal Voucher</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>Determine the amount of unallowable travel.</td>
<td>Was the purpose of the trip documented? (Acceptance Sampling)</td>
</tr>
<tr>
<td>Travel Voucher</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
  – DCAA memorandum briefs auditors on the 2016 NDAA which states DCAA may not provide audit support for non-Defense Agencies unless the Secretary of Defense certifies that the backlog for incurred cost audits is less than 18 months of incurred cost inventory.
  – The memorandum also describes the types of services that they can continue to provide to reimbursable customers and how to handle assignments that are 100% reimbursable or a mix of DoD and reimbursable contracts.

• DCAA MRD 16-PPD-004(R) Updated Audit Guidance on the Treatment of Overdue Indirect Rate Proposals (February 11, 2016)
  – DCAA memorandum includes a list of overdue indirect rate proposals and provides actions for such overdue proposals.
  – DCAA also furnishes DCMA with a total contract cost decrement that the Contracting Officer may consider when no relevant history exists. The current rate, updated this year, is 16.4%, based on an Agency-wide analysis. DCAA plans to re-evaluate the decrement rate again in three years.
DCAA AGMs – cont.

- DCAA MRD 16-PSP-005 (R) Audit Alert on DCMA Implementation Guidance on Blended Compensation Caps (February 19, 2016)
  - DCAA memorandum provides guidance for auditors to determine contractor compliance with applicable compensation limits when the contractor has decided to implement blended compensation caps and to provide audit findings to DCMA.

- DCAA MRD 16-PSP-006(R) - Audit Guidance on Revised Policy and Procedures for Low-Risk Incurred Cost Proposal Less Than $250 Million in auditable dollar volume (ADV) (May 27, 2016)
  - DCAA memorandum references revised policies and procedures for sampling low-risk incurred cost submissions (ICS).
  - Auditors shall be required to:
    - Reassess all ICS that were previously classified as high risk with an adequate ICS with ADV less than $5 million where fieldwork has not been started using the revised policy and procedures.
    - For adequate ICS with ADV less than $5 million, obtain regional audit manager (RAM) approval if performance of an ICS audit is warranted based on significant relevant risk.
    - Assess risk going forward for all adequate ICS with ADV less than $250 million using the revised policy and procedures.
• DCAA MRD 16-PSP-007(R) - Audit Alert on Handling Incurred Cost Proposals Using Blending Approach of Compensation Caps Proposal Less Than $250 Million in ADV (June 30, 2016)
  – DCAA memorandum provides guidance for auditors upon receipt of ICS that use a blending approach.
  – Includes guidance to require the contractor to resubmit the proposal only after executing an advance agreement with the administrative contracting officer whether or not the proposal was deemed adequate after adequacy review.

• DCAA MRD 16-PPD-008(R) - Update – Audit Guidance on the Impact of the National Defense Authorization Act on DCAA’s Audit Support to Non-Defense Agencies (September 30, 2016)
  – DCAA memorandum states that as of Oct. 1, 2016, the agency may again provide audit support for non-DOD entities.
  – The memorandum states that the DOD comptroller has certified to Congress that the DCAA has reduced its ICS backlog to under 18 months, thus satisfying the conditions placed on the DCAA by Congress in the 2016 NDAA.
DCAA Small Business Initiatives

DCAA Small Business Outreach

• Website presentations for small businesses
• Website tools (Checklists, Incurred Cost Electronically (ICE) Model, etc.)
• Financial Liaison Auditor (FLA) coordination with small business contacts at major buying commands
• Seminar coordination/participation
• National Defense Industry Association (NDIA)/Small Business Technology Council (SBTC) joint DCAA quarterly committee meetings
DCAA Small Business Initiatives

DCAA Seminars for Small Businesses

• Command Office of Small Business Programs (OSBP), Procurement Technical Center (PTAC), SBA District Office, or other small business groups hosts & markets training seminars

• Coordinates with DCAA Small Business Focal Point

• DCAA provides training
DCAA Small Business Initiatives

DCAA Presentations
• Introduction & DCAA Overview
• Accounting System Requirements
• Contract Briefs
• Incurred Cost Submissions
• Monitoring Subcontracts
• Proposal Adequacy
• Provisional Billing Rates
• Public Vouchers
• Real-time Labor Evaluations
Questions?
Issues in Focus Webinar Series

Join us next month on Wednesday January 11