



Defense Contract Audit Agency

NAVAIR Small Business Aviation Technology Conference

November 29-30, 2006



Defense Contract Audit Agency

- ✿ Established in 1965
- ✿ Separate Agency of the Department of Defense
- ✿ Reports to the DoD Controller General
- ✿ Provides services to all DoD Components
- ✿ Provides all necessary contract audits for DoD
- ✿ Provides accounting and advisory services for DoD



COMMON REVIEWS EXPERIENCED BY CONTRACTORS

- **Accounting System**
- **Financial Capability**
- **Labor Charging System**
- **Forward Pricing Proposals**
- **Rapid Rates**
- **Incurred Costs**



ACCOUNTING SYSTEM

The auditor must determine whether the accounting system:

- **Conforms to generally accepted accounting principles,**
- **Produces equitable results that can be verified,**
- **Is applicable to the contemplated contract or contracts, and**
- **Is capable of being consistently followed.**



ACCOUNTING SYSTEM REVIEWS

Determine adequacy and suitability of the system for accumulating costs under the type of Government contract awarded



ACCOUNTING SYSTEM REVIEWS

Preaward Survey (SF 1408) steps look for:

- **Proper segregation of direct costs from indirect costs**
- **Identification and accumulation of direct costs by contract**
- **A logical and consistent method for allocation of indirect costs to intermediate and final cost objectives**
- **Accumulation of costs under general ledger control**
- **A timekeeping system that identifies employees' labor by intermediate or final cost objectives**
- **A labor distribution system that charges direct and indirect labor to the appropriate cost objectives**
- **Interim (at least monthly) determination of costs charged to a contract through routine posting to books of accounts**



ACCOUNTING SYSTEM REVIEWS

Preaward Survey (SF 1408) steps look for:

- **Exclusion from costs charged to Government contracts of amounts that are not allowable pursuant to FAR 31, Contract Cost Principles and Procedures, or other contract provisions**
- **Identification of costs by contract line item and units if required by the proposed contract**
- **Segregation of preproduction costs from production costs**



ACCOUNTING SYSTEM REVIEWS

SB contractors must have *developed* a system that is operable, though not necessarily in use.

It must be in a position to demonstrate this new system to the auditor and be ready to implement the system prior to incurring any costs on the Government contract.



ACCOUNTING SYSTEM REVIEWS

If the accounting system is unacceptable, the auditor will notify both the contractor and the procurement official of the deficiencies and will usually identify recommendations for correcting the deficiencies.



PROPOSAL REVIEWS

- **FAR 15.408, Table 15-2, provides instructions on preparing a proposal and the backup required when cost or pricing data are required.**
- **Chapter 3 of DCAA’s “Information for Contractors (DCAAP 7641.90)” provides additional guidance regarding proposal requirements, DCAA audit evaluation, integrated product teams (IPTs), and examples of data DCAA may request, as well as a model proposal.**
- **Data should be provided in electronic format.**
- **An adequately supported proposal submission will result in an expedited audit evaluation.**



Vital Elements of a Proposal

- ❖ **Cost element breakdown in proper format for each line item (FAR 15.408 II--Cost Elements)**
- ❖ **Consolidated bill of materials along with the basis for pricing (FAR 15.408 II --Cost Elements)**
- ❖ **Breakdown of labor hours, rate and costs by appropriate category along with the basis for estimates (FAR 15.408 II --Cost Elements)**
- ❖ **Details as to how indirect costs are computed and applied, including cost breakdowns, trends and budgetary data to provide as basis for evaluating the reasonableness of proposed indirect rates (FAR 15.408 II --Cost Elements)**



Common Deficiencies Found in Proposals

- ❖ **Lack of a consolidated bill of materials**
- ❖ **Failure to conform to the specifications of the buying activity**
- ❖ **Failure to identify places or periods of performance**
- ❖ **Lack of budgetary data to evaluate indirect rates**
- ❖ **Failure to disclose the basis for pricing other direct costs.**
- ❖ **Failure to provide the basis for proposed material, labor and indirect costs.**
- ❖ **Failure to comply with the requirements set forth in FAR 15. 408 II--Cost Elements.**



RAPID RATES

Overview of the Rapid Rates Program



Rapid Rates

- ❖ Rapid Rates Initiative implemented July 23, 1999.
- ❖ Initiative provides a vehicle for contracting officers to receive timely financial information.
- ❖ Provides more information on contractor rates within a shorter cycle time.



Rapid Rates

- Designed to allow:
 - FAOs to monitor billing rates
 - Provides a single DCAA Point of Contact at commands for rate requests
 - Quickly provides rate information to command contract personnel



Rapid Rates

✿ Buying Commands

- ✦ Identifies contractors (Multiple Award Contract)
- ✦ Requests rate/financial information in house DCAA Representatives (FLA)

✿ Cognizant DCAA/FLA

- ✦ Establish/maintain Rapid Rate
- ✦ Assist buying commands in identifying Rapid Rate contractors.



Rapid Rates

- Request Rapid Rate data from cognizant FAO
- Provide Rapid Rate information to Command

● Cognizant FAO

- Request rate submissions from contractor (voluntary)
- Perform audit of Rapid Rate Contractor
- Provide Rapid Rate information to DCAA/FLA



Rapid Rates

Rapid Rates Database can assist / expedite
evaluation of Multiple Award Contract Proposals
by the Contracting Officer



Contractor Responsibility

- Prepare adequate rate submission
- Have adequate Accounting System
- Have adequate Financial Capability
- Support Rate Review Audit
- Support Preaward Accounting System Audit
- Update rates as needed



How to prepare for a DCAA Audit

(Or When the Auditor Comes Knocking At Your Door)

- ❖ Provide all the data required (i.e.: summary and supporting schedules, other data specified).
- ❖ Have an adequate accounting system.
- ❖ Have data related to the audit (supporting documentation) readily available.
- ❖ Be reasonably available for the audit.
- ❖ Have personnel familiar with the information readily available.



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DCAA

Dedicated to providing timely and responsive audits and financial advisory services



In Support of our National Defense

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 - Incurred Cost Electronically (ICE) Model
 - DCAA Contract Audit Manual
 - Directory of DCAA Offices
 - Report on Activities
 - DCAA Catalog of Courses
 - EZ-Quant
- Freedom of Information Act
- Links to Other Web Sites

Information for Contractors

DCAAP 7641.90

January 2001

CHAPTER	TITLE
Foreword	Information for Contractors
Chapter 1	Introduction to the Defense Contract Audit Agency
Chapter 2	Preward Surveys
Chapter 3	Price Proposals
Chapter 4	Cost Accounting Standards
Chapter 5	Contract Financing and Interim (Billing) Methods

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- Audit Office Locator

DCAA Cognizant Field Audit Office (FAO) Locator

Welcome to the DCAA Locator Web Site.

This Web site queries the DCAA Cognizant FAO database and allows you to find the FAO(s) assigned to a given zip code. Along with each cognizant FAO, there will also be displayed the FAO's e-mail address which when selected will automatically generate a pre-addressed e-mail message for requesting DCAA services.

Enter a contractors 5-digit zip code and the system will display the cognizant field audit office responsible for that area.

For 5-digit zip code information not found through the Search, the system will automatically submit an electronic request to our web site and continue to search for the cognizant FAO which most closely matches the first three digits of the 5-digit zip code entered.

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ZIP Code:

<i>Great Lakes Branch Office- 02261</i>	Remark:
Patrick V McNamara Bldg 477 Michigan Avenue Suite 400 Detroit, MI 48226	Phone No: 313-226-7260 Fax No: 313-226-6482 E-mail: dcaa-fao2261@dcaa.mil

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- + [FAR -- Part 29; Taxes; \(FAC 97-14\); 23 November 1999](#)
- + [FAR -- Part 30; Cost Accounting Standards Administration; \(FAC 97-18\); 6 June 2000](#)
- [FAR -- Part 31; Contract Cost Principles and Procedures; \(FAC 97-17\); 25 April 2000](#)
 - [31.000 -- Scope of Part.](#)
 - [31.001 -- Definitions](#)
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 - + [Subpart 31.1 -- Applicability](#)
 - [Subpart 31.2 -- Contracts With Commercial Organizations](#)
 - + [31.201 -- General.](#)
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 - + [Subpart 31.3 -- Contracts With Educational Institutions](#)
 - [Subparts 31.4 -- 31.5 -- Reserved](#)
 - + [Subpart 31.6 -- Contracts with State, Local, and Federally Recognized Indian Tribal Governments](#)
 - + [Subpart 31.7 -- Contracts with Nonprofit Organizations](#)
- + [FAR -- Part 32; Contract Financing; \(FAC 97-17\); 25 April 2000](#)

FAR

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A quick reference of the FAR Parts:

Current to **NEW** [FAC 97-18](#) Initial
Effective 6 Jul 2000,
[FAC 97-19](#) Initial *Effective 26 Jul 2000*
 [FAR obtained from PKL]
 & Class Deviation [2000-o0004](#)

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