

DCAA Price Proposal Audits

Pre-award Contract Audit Services

What is a Pre-award Survey?

A pre-award survey is an evaluation, usually made by the cognizant contract administration office, of a prospective contractor's ability to perform a proposed contract. An added benefit of an adequate pre-award survey is that it may expedite the negotiation process.

Communication - The Key is to ensure all available facts have been considered the auditor will discuss findings with the Contracting Officer and the contractor throughout the audit. This is especially important if findings or issues are identified.

Types of Pre-award Surveys (FAR 9.106-4)

- SF 1403 - General Form
- SF 1404 - Technical
- SF 1405 - Production
- SF 1406 - Quality Assurance
- SF 1407 - Financial Capability
- SF 1408 - Accounting System

Pre-Award Accounting System Survey Purpose:

To determine the adequacy of the contractor's accounting system and practices for accumulating costs under the type of Government contract to be awarded. (FAR 9.104-1(e))

SF 1408 – Accounting Survey Includes

- Segregation of direct and indirect costs
- Accumulate direct cost by contract
- Logical/consistent indirect allocations
- Costs are under General Ledger control
- Timekeeping system identifies cost objectives
- Adequate labor distribution system
- Books are posted at least monthly
- Unallowable costs are not billed
- Identifies costs by line item or unit
- Segregates preproduction costs
- Can meet Limitation of Cost (FAR 52.232-20, 21. and 22) or Limitation on Payment (FAR 52.216-5, 6, 16, and 17) requirements
- Can support Progress Payments on fixed price contracts
- Can support the pricing of follow-on contracts

Pre-award Accounting System Audit Process:

- The auditor will make a site visit to the contractor's offices and request to review the:
 - General Ledger
 - Job Cost Ledger
 - Labor Distribution
 - Timekeeping System
- The auditor will ensure a process or policy is in place for:
 - Interim Re-pricing
 - Exclusion of Unallowable Costs per FAR 31.2.

Pre-award Exit Conference:

An exit conference is held at the conclusion of the review before a report is issued. If there are findings, a copy of the draft report is provided to the contractor. A reasonable time is provided for the

contractor's written response, if necessary. The written response will be incorporated in the final report as an Appendix.

Financial Capability

Financial Capability Review Purpose:

To determine whether the contractor's finances are adequate to perform the potential contract. (FAR 9.104-1(a))

Required Data for Financial Capability Review

The following data should be provided:

- Financial Statements
- Cash Flow Forecasts
- Loan Agreements
- Aging of Accounts Receivable and Payable
- Financial History

Financial Capability Audit Process:

- The auditor obtains financial information from the contractor.
- A series of key financial ratios are performed on the data provided.
- The results of the ratio analysis are evaluated to determine the contractor's financial position.

Audit of Cost Estimates and Price Proposals

Price Proposals

- Format prescribed in FAR 15.408
- Alternate format specified by the Contracting Officer
- Current, accurate and complete data. (Truth in Negotiations Act requirement.)
- Contractor grants Government right to review proposal and examine books and records (FAR 15.408).

Types of Proposal Audits

- Audit of entire cost proposal
- Audit of parts of a proposal (entire specific cost element(s), but not whole proposal)
- Agreed upon procedures review (review of certain data or rates, verification tests, etc.)
- Specific cost information, telephone rate data (based on existing data submitted by the contractor that is maintained in office rate files)

Audit Process (Initial Steps)

- Requested by PCO or ACO to perform a review
- Demand assignment (start and complete as soon as possible - 30 days or less)
- Copy of proposal should be submitted to the cognizant DCAA office. The DOD supports and encourages electronic submission of proposals.
- Review the proposal submission for adequacy. Determine if it has been adequately prepared in accordance with FAR 15.408, Table 15-2 or the format specified by the contracting officer.

Audit Process (Fieldwork)

- Request for information is provided by the auditor and an entrance conference is scheduled and held.
- We review the supporting documentation and compare it to the proposal. The data is reviewed to determine:
 - it is current, complete, and accurate;
 - it is reasonable;
 - it is allowable per FAR 31.2;
 - it ties into the existing accounting system; and

- the accounting method used in estimating the costs is consistent with established accounting practices.

Any questions/problems will be discussed during the course of the review. It is important to note, it is the contractor's responsibility to justify and fully support all items included in the proposal.

Audit Process (Exit Conference)

- An exit conference will be held.
 - The auditor shall not reveal the audit conclusions or recommendations to the offeror / contractor without obtaining the concurrence of the contracting officer. However, the auditor may discuss statements of fact with the contractor. (FAR 15.404-2(c)(1)(i))
- DCAA does NOT disclose the audit conclusions and recommendations on projected cost or rates that are subject to contracting officer negotiations.
- Only factual differences during the audit can be discussed.
- What are *factual differences*?
- As an example, proposed labor rates are based on actual rates that were available prior to the submission of the proposal. However, more current labor rates are available during the audit. As a result, DCAA takes exception to the proposed labor rates. DCAA can discuss with the contractor that more current rates were used in the audit report without disclosing numbers.
- If subcontractor, DCAA will obtain a release letter.

Contract Financing/Payments

- Cost type contracts are typically reimbursed using Government public voucher forms SF 1034 and SF 1035
- Interim reimbursement is based on:
 - Actual Direct Cost
 - Indirect Costs at pre-established Provisional Billing Rates
 - Fee based on contract terms

Provisional Billing Rates

- Billing rate means an indirect cost rate (FAR 42.701):
 - Established temporarily for interim reimbursement of incurred indirect costs; and
 - Adjusted as necessary pending establishment of final indirect cost rates.
- Provisional Billing Rates should be submitted at the beginning of each new contractor fiscal year and subsequently as needed.
- Provisional Billing Rates are established by DCAA.

DCAA's Role in Voucher Processing

- DCAA reviews and signs initial and interim vouchers submitted on cost-type contracts.
- Contractors must submit a SF 1035, Public Voucher Continuation Sheet along with the SF 1034. The SF 1035 should reflect the cumulative amounts and the total contract value and funding.
- Contractors need to submit a stamped envelope addressed to the applicable paying office. Signed vouchers will not be returned to the contractor.

Direct Billing Program

- A contractor who meets certain requirements can participate in this program.
- Advantages
 - Eliminates the provisional approval of DCAA of initial and interim vouchers.
 - Reduced payment cycle time.
 - Reduced processing costs for both the contractor and the government.
 - Electronic submission to paying office.
- Final vouchers still need to be submitted to DCAA.

Billing System Review

- Can be initiated by DCAA
- Must have an adequate Billing System to participate in Direct Billing Program.
- Elements of an Adequate Billing System:
 - Written policies and procedures.
 - Provisional billing rates are submitted to DCAA.
 - Billings are reviewed by management prior to submission.
 - Ability to reconcile billing system data to cost accounting records.
 - Compares amounts received to amounts billed.

- Billings are based on cost accounting system/records.
- Assesses adequacy of subcontractor's accounting and billing systems (if applicable).