

DCAA (Defense Contract Audit Agency) is prioritizing Incurring Cost Audits in Fiscal Year 2012

It is reported that contractors have been receiving correspondence from DCAA asking for specific data in connection with Incurred Cost Audits. Key elements of these requests include:

1. List of internal audit reports issued in the fiscal year.
2. List of work sites and the number of employees assigned to each site.
3. Actions that have been and/or will be implemented to correct the weaknesses described above.
4. Identification of and information on prime contracts under which the contractor performs flexibly priced effort as a subcontractor.
5. Certified financial statements or other financial data.
6. List of ACOs and PCOs for each flexibly priced contract.
7. Description of accounting system.
8. SEC 10-K report.
9. Federal and state income tax returns.
10. Listing of delay and disruption and termination claims submitted which contain costs relating to this fiscal year.
11. Minutes from Board of Directors meetings.
12. Executive compensation information for top five executives.
13. Annual internal audit plan of scheduled audits to be performed in this fiscal year.
14. Contract briefs.
15. Management letter from outside CPAs concerning any internal control weaknesses.
16. Procedures for identifying and handling unallowable costs.
17. Comparative analysis of indirect expense pools with prior years.

The DCAA Guide For Determining Adequacy Of Contractor Incurred Cost Proposal follows.

DCAA Guide For Determining Adequacy Of Contractor Incurred Cost Proposal

If it is determined that the submission is inadequate, the auditor must provide a written description of any inadequacies to the contractor and contracting officer in accordance with FAR 42.705-1(b)(1)(iii). A copy of the notification should be sent to the ACO. If the information needed is not provided in a timely manner, the FAO should request ACO assistance. Maintain any correspondence with the contractor and ACO regarding requests for the incurred cost proposal and requests for additional information with this form.

Proposal Adequacy –

- Verify that the contractor is the prime on at least one government flexibly-priced contract. If all claimed costs are for subcontracts, contact the cognizant DCAA offices(s) of the upper-tier contractor to determine if assist audit is needed.
- Determine if all claimed prime contract costs are for Non-DoD agency contracts. If the contractor does not have a DoD contract, contact Non-DoD agency to determine if the incurred cost audit is needed.
- Verify mathematical calculations in the schedules. Check rate calculations on all Schedules (MAAR 19).

Schedule A – Summary of All Claimed Indirect Expense Rates, Including Pool, Base, and Calculated Indirect Rate.

- Ensure all claimed pools, bases, and rates are shown, including COM (if applicable), and intermediate rates. (Verify all final indirect rates on Schedules B, C, F, and H, and intermediate indirect pool rates on Schedule D, are included on Schedule A.)

- Verify total pool amounts from Schedule A to total claimed expenses on Schedules B, C, and D.
- Verify base amounts from Schedule A for final pools to base amounts on Schedule E.

Schedule B – General & Administrative (G&A) Expenses (Final Indirect Cost Pool):

- Ensure identification of unallowable costs by using an adjustment column or specific account for unallowable costs.
- Verify the contractor included explanatory notes for any adjustments from expenses booked per G/L to claimed costs.
- Trace intermediate allocations to source schedules (e.g., Schedule B intermediate allocation amounts to Schedule D allocations).
- Determine if claimed IR&D/B&P is fully burdened. (The proper calculation of IR&D/B&P is an audit step. For the adequacy determination, verify that these costs have applicable fringe and overheads applied.)

Schedule C – Overhead Expenses (Final Indirect Cost Pool):

- Ensure a cost schedule is provided for each pool.
- Ensure total OH pool costs for each pool reconcile to schedule H
- Ensure identification of unallowable costs by using adjustment columns or specific accounts for unallowable costs.
- Verify the contractor included explanatory notes for any adjustments from expenses booked per G/L to claimed costs.
- Trace intermediate allocations to source schedules (e.g., Schedule C intermediate allocation amounts to Schedule D allocations).

Schedule D – Occupancy Expenses (Intermediate Indirect Cost Pool(s)):

- Ensure a cost schedule is provided for each intermediary cost pool.
- Ensure identification of unallowable costs by using adjustment columns or specific accounts for unallowable costs.
- Verify the contractor included explanatory notes for any adjustments from expenses booked per G/L to claimed costs.
- Trace intermediate allocations to source schedules (e.g., Schedule D intermediate allocations to Schedule B allocation amounts).
- Ensure the schedule identifies (1) allocation base by recipient, (2) the percentage of the total base for each recipient, and (3) the dollars allocated to each recipient.
- Ensure the intermediate pools and bases agree with the contractor's Disclosure Statement (if applicable) or historical accounting practices based on general knowledge of the contractor.

Schedule E – Claimed Allocation Bases by Element of Cost, Used to Distribute Indirect Costs:

- Ensure an explanation of each base is included.
- Ensure base amounts show individual cost elements that reconcile with costs on referenced schedules and include explanatory notes (e.g., direct cost elements in bases tie to Schedule H totals). Ensure base amounts include all unallowable amounts.
- Ensure the contractor is consistent in using allocation base methods and the contractor included explanations if there are any changes from prior years.

Schedule F – Facilities Capital Cost of Money Factors Computation:

- Ensure correct interest rates are used (CAM 8414.2).
- Ensure allocation bases used match corresponding allocation bases claimed in Schedule A.

- Ensure the contractor calculated a separate COM rate (if applicable) for each final indirect pool.

Schedule G – Reconciliation of Books of Account and Claimed Direct Costs by Major Costs Element:

- Verify claimed direct costs to Schedule H.
- Verify the contractor included explanatory notes for any adjustments from expenses booked per G/L to claimed costs.

Schedule H – Schedule of Direct Costs by Contract and Subcontract and Indirect Expense Applied at Claimed Rates as well as a Subsidiary Schedule of Government Participation Percentages in Each of the Allocation Base Amounts:

- Ensure flexibly priced contracts and subcontracts, including commercial T&M, are listed by contract and subtotaled by contract type. FFP and other commercial contracts may be shown on one summary line each.
- Verify cost detail is in the same level used for billing costs (e.g., by delivery order).
- Verify indirect expenses were calculated using claimed rates from Schedule A.
- Verify Government participation is calculated for each indirect expense pool.
- Reconcile base amounts used for calculating government participation to Schedules E and H.

Schedule I – Schedule of Cumulative Direct and Indirect Costs Claimed and Billed by Contract and Subcontract:

- Verify cost detail is in the same level used for billing costs (e.g., by delivery order).
- Reconcile FY claimed dollars to Schedule H for cost type contracts.
- Reconcile FY claimed dollars to Schedule K (not Sch. H) for T&M contracts.
- Compare prior years settled total costs to prior years audit reports.
- Verify contracts identified as physically complete are reported on Schedule O.
- Verify that cumulative amounts are not over contract ceiling amounts; amounts over contract ceiling must be deducted and identified in the contract limitation column.
- Ensure contracts subject to penalty provisions are identified.

Schedule J – Subcontract Information:

- Ensure the schedule includes all types of subcontracts (e.g., cost-type, T&M/LH, IDIQ with a variable element, and FFP) and intra-company costs claimed by the contractor on flexibly priced prime contracts and/or upper-tier subcontracts.
- Ensure the contractor has included all of the detail for the subcontracts (subcontract number, prime contract number, subcontractor's name and address, point of contact, subcontract value, period of performance, costs incurred in the FY, and award type).

Schedule K – Summary of Each Time-and-Materials and / Labor Hour Contracts Information, Including Labor Categories, Labor Rates, Hours, and Amounts; Direct Materials; Other Direct Costs; and, Indirect Expense Applied at Claimed Rates:

- Verify cost detail is in the same level used for billing costs (e.g., by delivery order).
- Ensure all contracts/delivery orders identified as T&M/LH on Schedule H have been reported on Schedule K.
- Ensure information is presented by cost element, with labor presented by labor category, showing contract labor rates, not actual labor rates.
- Tie claimed G&A rate to Schedule A.
- Ensure ODC claimed in schedule K for each contract / D.O. ties to ODC claimed in schedule H.

Schedule L – Reconciliation of Total Payroll per IRS Form 941 to Total Labor Costs Distribution:

- Verify direct labor totals to totals on Schedules H.
- Verify G&A labor totals to totals on Schedule B.
- Verify other indirect pool labor totals to applicable pool schedules.

Schedule M – List of Decisions, Agreements, Approvals, and Description of Accounting / Organizational Changes:

- Ensure completion of this schedule. Negative responses are required.

Schedule N – Certificate of Final Indirect Costs:

- Verify the certificate is signed by an individual of the contractor's organization at a level no lower than a vice president or chief financial officer of the business segment of the contractor that submits the proposal. (FAR 52.242.4)

Schedule O – Contract Closing Information for Contracts Physically Completed in this Fiscal Year:

- Verify contracts reported here are identified as physically complete on Schedule I and identify those already closed or ready to close.
- Verify the schedule contains LOE information (LOE hours and actual hrs) and ensure the accuracy of the POP and contract ceiling amount.