



# Introduction to DCAA Audit of Incurred Cost Proposals

DCAA Panelists:

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# AGENDA

- Introduction to Incurred Cost Proposals
- Benefits of DCAA Incurred Cost Audits
- Audit Process Overview
- What Happens After the Audit
- Questions

# INTRODUCTION TO INCURRED COST PROPOSAL

- What is an Incurred Cost proposal?
  - Required by FAR 52.216-7(d)(2) Allowable Cost and Payment
    - Due within 6 months after end of contractor's fiscal year
- DCAA's Role
  - Adequacy review within 60 days
  - Audit report within 12 months
- Customer's Role
  - Contract Close out

# BENEFITS OF DCAA OVERSIGHT

- DCAA monitors and identifies Delinquent/Overdue Submissions
  - DCAA will notify the contractor after an ICP is 30 days or more overdue.
  - DCAA notifies DCMA of any proposals that are six months or more overdue.
  - After 12 months overdue, DCAA will recommend a decrement for the Contracting Officer to make a unilateral determination (FAR 42.703-2).

# INTRODUCTION TO INCURRED COST PROPOSAL

- Contractor Submission Portal
  - Intro
  - How to use it
  - FAQ
  - Benefits of Using the Portal
  - Benefit to our Customers

Additional information can be found at [www.dcaa.mil](http://www.dcaa.mil) website

## INTRODUCTION TO INCURRED COST PROPOSAL

- Adequacy Review Process
  - Auditors use a checklist to verify requirements are met.
  - Assessment is completed and contractor is notified within 60 days of receipt

# BENEFITS OF DCAA IN THIS PROCESS

- DCAA can identify errors in the submission early
- DCAA works with the contractor to correct those errors and obtain an adequate submission
- Prevents the contracting officer from negotiating rates or settling IC with inaccurate information.



**DCAA**

DEFENSE CONTRACT AUDIT AGENCY

# AUDIT PROCESS OVERVIEW



# AUDIT SELECTION

- What is Auditable Dollar Volume (ADV)?
- ADV of \$1 billion or greater
- ADV of less than \$1 billion
  - Eligible for risk-based sampling
- Exclusions from risk-based sampling process
- What if the ICP is not randomly selected for audit?

# AUDIT TIMELINE

- Per the 2018 NDAA, Title VIII, Section 803 (i.e., 10 USC 3842 – Performance of IC Audits):
  - Once an adequate IC submission is received, DCAA has 12 months to complete the audit.
  - DCAA's average (in past four years) has consistently been just under 7 months.

# AUDIT PROCESS

## Audit Lifecycle

- Risk Assessment
  - Preliminary Procedures
  - Discussions with Audit Team
    - Share your Concerns!
  - Entrance Conference/ Proposal Walk-Through
    - *Your Attendance Beneficial*

# AUDIT PROCESS

- Fieldwork/Testing and Sampling
  - Test of allowability, allocability, and reasonableness per FAR 31.201
  - Compliance with Contract Terms
  
- Reporting
  - Concluding procedures
  - Exit Conference
  - Report issuance

# BENEFITS OF DCAA DURING AUDIT PROCESS

- History with Contractor
- Knowledge of Contract Terms
- Access to Ktr Systems / Information on Hand
- Ability to Leverage with Work from Other Audits -  
Quicker Response Time/ Delivery of Audits for our  
Customers
- Understanding of how system deficiencies impact  
Incurred Cost → Questioned Cost



# WHAT HAPPENS AFTER THE AUDIT?

# WHAT HAPPENS AFTER THE AUDIT?

- Establishment of indirect rates
  - Auditor determined indirect rates
  - Contracting Officer established indirect rates
- Contractor updates billings
  - Rate true-ups within 60 days of settlement
  - Reflect settled rates on all contracts
  - Update schedule of cumulative direct and indirect costs (Schedule I).
  - Completion invoices within 120 days for all years

## ADDITIONAL DCAA SUPPORT SERVICES

- Answer Questions about Report
- Negotiation Support:
  - Additional Analysis
  - Attendance at Negotiation
  - Recalculations
  - Research



## BENEFITS OF DCAA INCURRED COST AUDITS

- In FY22, DCAA issued 522 Incurred Cost audit reports identifying **over \$1.1 billion** in audit exceptions from \$186 billion examined

Type	Number	Dollars Examined	Audit Findings
Reports	522	\$ 186,101,974,000	\$ 1,125,545,000
Memos	2,900	47,599,851,000	N/A
Total	3,422	\$ 233,701,825,000	\$ 1,125,545,000

- Memos help close contracts

## SAVINGS RESULTING FROM DCAA AUDITS

- DCAA IC audits resulted in \$500 million net savings of defense spending in 2022.

## OTHER BENEFITS

- DCAA's mere presence in IC audits acts as a deterrent of potential waste, fraud, and abuse of tax-payer dollars.
- Incurred Cost audits can help identify other issues → Business System deficiency, CAS noncompliance, etc.



# QUESTIONS

