

Performance Audits and Other DCAA Services

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Topics

- Performance Audits
- Government Property in the Possession of Contractors
- Economic Price Adjustment Clause
- Advisory Services
- Questions

Performance Audits

- Performance audits provide objective analysis, findings, and conclusions to assist those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making, and initiating correcting action.
- Performance audit objectives range from narrow to broad and include assessments of program effectiveness, economy, and efficiency; internal control; and compliance.

Performance Audits (continued)

- Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results.
- Internal control audit objectives relate to an assessment of one or more aspects of an entity's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliability of reporting for external use, or compliance with provisions of applicable laws and regulations.
- Compliance audit objectives relate to an assessment of compliance with criteria established by provisions of laws, regulations, contracts, and grant agreements, or other requirements that could affect the acquisition, protection, use and disposition of the entity's resources and the quantity, quality, timeliness, and costs of services the entity produces and delivers. Compliance requirements can be either financial or nonfinancial.

Performance Audits (continued)

- Performance audits can either be requested by the CO/ACO or self-initiated by DCAA.
- If the audit is requested; the most common methods to request an audit are the following:
 - Request the audit through the DCAA FAO; or
 - Request the audit through the FLA (Financial Liaison Auditor).
- For self-initiated audits it is customary for the FAO to discuss the audit with the CO/ACO prior to starting the audit.

Benefits of Performance Audits

- DCAA can assist CO/ACO address concerns related to effectiveness, economy, and efficiency on their programs/contracts.
- Permits timely accumulation and report of information in areas of cost that have managerial significance and will contribute to a more economical and efficient operations.
- At major contractors, able to seek out and identify those areas where the contractor's practices may be wasteful, careless, and inefficient; which may result in unreasonable costs and/or unsatisfactory conditions in performing Government contracts.

Benefits of Performance Audits

- The results of performance audits may identify areas of cost avoidance.
- Finally in the current environment of shrinking budgets, performance audits can help in stretching out those dollars.

Types of Performance Audits

- Listing of Performance Audits:
 - Management System
 - Relates to audits directly concerned with the economy and efficiency of contractor operating systems. Audits include computer systems and equipment, automated production and business equipment, and facilities systems.
 - Labor Elements
 - Relates to audits directly concerned with the economy and efficiency of labor.
 - Materials and Other Cost
 - Relates to audits directly concerned with the economy and efficiency of areas involving inventory, tools and equipment, and travel.
 - Other Transaction Agreements
 - Represents effort expended to provide audit or advisory services in support of other transaction agreements (OTAs).

Real World Audit Results

- Labor Utilization Practices:
 - Evaluated the contractor's policies, procedures, practices and controls related to the economic and efficient use of labor on the USS JOHN STENNIS (CVN 74) Refueling and Complex Overhaul (RCOH) Contract N00024-21-C-2106.
 - Assessed production worker activity to determine the level of work related activity that the contractor's current practices yield for the CVN 74 RCOH contract.
 - Audit disclosed that the contractor production personnel spend approximately 64 percent of their time engaged in work related activities. Increasing the level of work related activities for contractor employees to 85 percent will increase production labor utilization and result in savings of approximately \$2 million per month.

Real World Audit Results (continued)

- Proposal Development
 - Evaluated the efficiency and effectiveness of the proposal development process and steps where bottlenecks occur that increase the time spent to complete a proposal submission.
 - The evaluation disclosed two main areas relating to the contractor's proposal process that have the potential for time efficiency savings as follows:
 - RFP Process- contractor does not currently take full advantage of the time from the draft RFP to final RFP issuance. During this time, items such as starting actual estimating process for materials and beginning engaging with subcontractors could be initiated. This would potentially reduce the time the contractor is taking to submit proposals to the Government.
 - ABC quotes low-dollar parts that fall below the top 80% of the total Bill of Material (BOM) value, which adds time to the already lengthy proposal process. The contractor instead should establish a practice to analyze historical pricing, whether using purchase orders or quotes, to develop pricing items in the bottom 20% BOM value, when appropriate.

Real World Audit Results (continued)

- CARES Act Reimbursement Request
 - Determine whether the contractor has established (1) policies and procedures, or (2) a separate plan to ensure compliance with the provisions of the Section 3610, agency reimbursement of paid leave, under the CARES Act.
 - Determine whether the contractor claimed costs are in accordance with Section 3610 under the CARES Act.
 - Audit disclosed the contract has established (1) policies and procedures, or (2) a separate plan to ensure compliance with the provisions of the Section 3610, agency reimbursement of paid leave, under the CARES Act. In addition, the claimed costs were in accordance with Section 3610 under the CARES Act.

Real World Audit Results (continued)

- CARES Act Sections 1102 and 1106
 - Evaluated contractor's current policies and procedures and proposed plans to determine if they are adequately designed to identify allowable covered costs under the Paycheck Protection Program (PPP) in accordance with Section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act); that appropriate credits for loan forgiveness (Section 1106) will be credited back to the appropriate contracts or indirect pools; and that monitoring and billing oversight activities by management is included.
 - What the audit found:
 - The contractor possesses policies and procedures that are able to identify PPP covered costs in accordance with Section 1102 of the CARES Act (now incorporated under Section 7 of the Small Business Act), and provide for management oversight/monitoring of billings.
 - The contractor does not possess specific policy and procedures or plans to identify appropriate credits for loan forgiveness under Section 1106 of the CARES Act (now Section 7A of the Small Business Act).
 - The contractor does not have a plan to assign applicable credits to appropriate contracts or indirect pools for which the contractor has already been paid by the U.S. Government via the PPP loan program and subsequent forgiveness.



DCAA

DEFENSE CONTRACT AUDIT AGENCY

Government Property-Related Services

What is GFP?

- Government-furnished property (GFP) is property in the possession of, or acquired by, the Government and furnished to the contractor for performance of a contract
- GFP also includes:
 - Spares and property furnished for repair, maintenance, overhaul, or modification
 - Contractor-acquired property

GFP Roles & Responsibilities

Government

- Makes GFP decisions
- Retains title to GFP
- Delivers the GFP described in the contract
- Has access to the contractor's premises for GFP oversight
- Maintains effective oversight and accountability of GFP

Contractor

- Establishes internal controls to manage GFP
- Maintains a property management system
- Performs and records inventories; discloses results
- Applies to subcontractors and vendors
- Extends from initial receipt until formally relieved

Audit Trends

- Historically, DoD has had issues:
 - Incorporating GFP clauses in contracts
 - Creating asset records at delivery
 - Tracking GFP receipt, transfer, return, and loss
- DoD lacks full visibility over GFP
- The financial statement audit has brought these challenges to the forefront

Why Now?

- *IPA: DoD components couldn't reconcile GFP balances reported on their financial statements to a system of record, or substantiate the existence and completeness of GFP*
- In response, DoD activities are working to address this and other audit findings via the Financial Improvement and Audit Remediation (FIAR) initiative

How Can DCAA Assist?

- DCAA is uniquely positioned to assist with government property-related issues
- By leveraging our access to contractors, their files, books and records, we offer a variety of services helpful to organizations seeking to address FIAR challenges or enhance government property accountability

GFP Policy Evaluation

- DCAA can assist with evaluating contractors' GFP policies on:
 - Inventorying
 - Safeguarding
 - Accounting for GFP
- Provides insight regarding contractors' compliance with applicable guidance

GFP Policy Evaluation

GFP Policy Area	Potential Areas of Emphasis
<i>Inventorying GFP</i>	<ul style="list-style-type: none"> • Reconciliation processes and procedures • Inventory reporting • Subcontractor oversight
<i>Safeguarding GFP</i>	<ul style="list-style-type: none"> • Access controls • Procedures regarding lost, stolen or damaged GFP • Physical security
<i>Accounting for GFP</i>	<ul style="list-style-type: none"> • Asset tracking system • Evaluating subcontractor GFP policies/procedures

Inventory Accuracy Testing

- DCAA can assess inventory accuracy by:
 - Observing of inventory practices
 - Performing existence (book-to-floor) and completeness (floor-to-book) testing to validate government property records
 - Reconciling GFP inventories with official property records

Other GFP Support

- In some cases, DCAA can be called upon to conduct:
 - Physical inventories
 - Transaction/issuance testing
 - Observation/site visit to verify the location of GFP

Takeaways

- DCAA offers a variety of services designed to address government property-related challenges and support FIAR efforts
- We've successfully supported DoD and non-DoD clients in the past. Since the financial statement audit, we've seen increased interest in our GFP support services
- DCAA can tailor audit procedures to meet your specific needs

Economic Price Adjustment Clause

DFARS PGI 216.203-4

- “.....contracting officers should always request assistance from their local pricing office, the Defense Contract Management Agency, or the Defense Contract Audit Agency when contemplating the use of an EPA provision.”

Types of DCAA EPA Assistance

- (1) Assist contracting officers when they contemplate the use of an EPA clause (i.e. prior to contract award); and
- (2) Assist the contracting officer when the contractor requests for adjustment under the EPA terms (i.e., after contract award).

DCAA EPA Assistance When Contemplating Use of EPA

- DCAA provides input on the following:
 - Types of Costs Subject to Adjustment
 - Baseline Index
 - Measurement Index
 - Breakout of Costs by Year
 - Trigger Band vs. Dead Band Method
 - Adjustment Calculation
 - Other Considerations

DCAA EPA Assistance When Applying EPA Clause Terms

- DCAA provides the following assistance:
 - Ensure math calculations are in accordance with the EPA terms and applied accurately; and
 - Provide specific information from the contractor's books and records.

DCAA Advisory Services

Advisory Services

What is an Advisory Service?

- Unlike audit or attestation engagement
- Do not provide any level of assurance regarding a contractor's assertion or submission
- Not conducted in accordance with GAGAS

Common Advisory Services

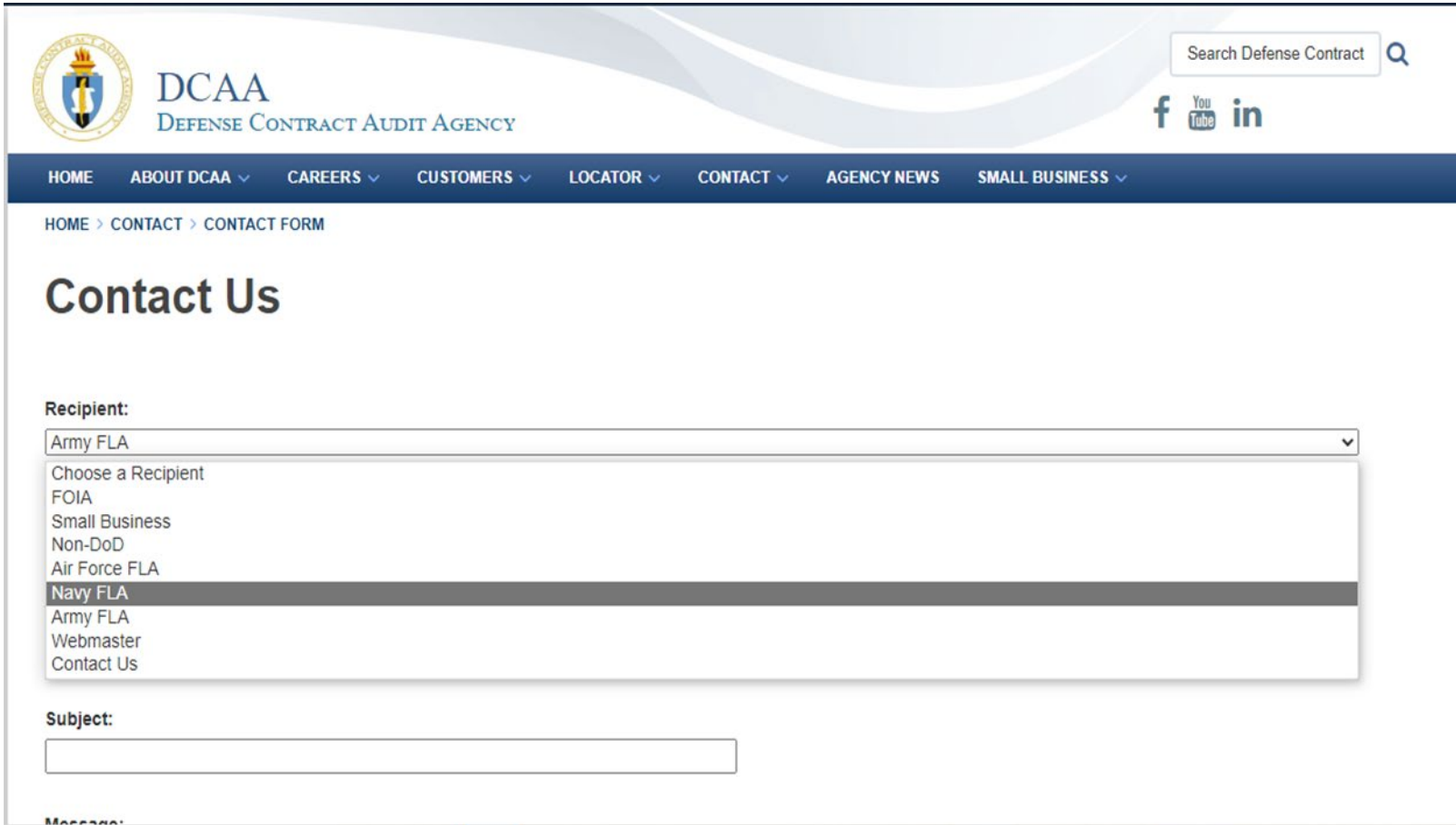
- Final Vouchers
- Provisional Billing Rates
- Request for Specific cost/rate information
- Other Transaction Agreements
- Negotiation Support
- FLA Services

Speed of Service

FLA Advisory Service Examples

- Escalation Indices
- Nomenclature Check for Potential FAR Noncompliance
- Compensation Survey Direct Labor Rates
- Historical Data Readily Available in FAO Perm File

How To Contact Your FLA



The screenshot shows the DCAA website's contact form. At the top left is the DCAA logo and the text "DCAA DEFENSE CONTRACT AUDIT AGENCY". To the right is a search bar labeled "Search Defense Contract" and social media icons for Facebook, YouTube, and LinkedIn. A dark blue navigation bar contains the following menu items: HOME, ABOUT DCAA, CAREERS, CUSTOMERS, LOCATOR, CONTACT, AGENCY NEWS, and SMALL BUSINESS. Below the navigation bar is a breadcrumb trail: HOME > CONTACT > CONTACT FORM. The main heading is "Contact Us". The form includes a "Recipient:" dropdown menu with "Army FLA" selected and a list of options: Choose a Recipient, FOIA, Small Business, Non-DoD, Air Force FLA, Navy FLA (highlighted), Army FLA, Webmaster, and Contact Us. Below this is a "Subject:" text input field. The "Message:" field is partially visible at the bottom.

DCAA Website- Contact-Contact Form
(<https://www.dcaa.mil/Contact/>)

Questions

