



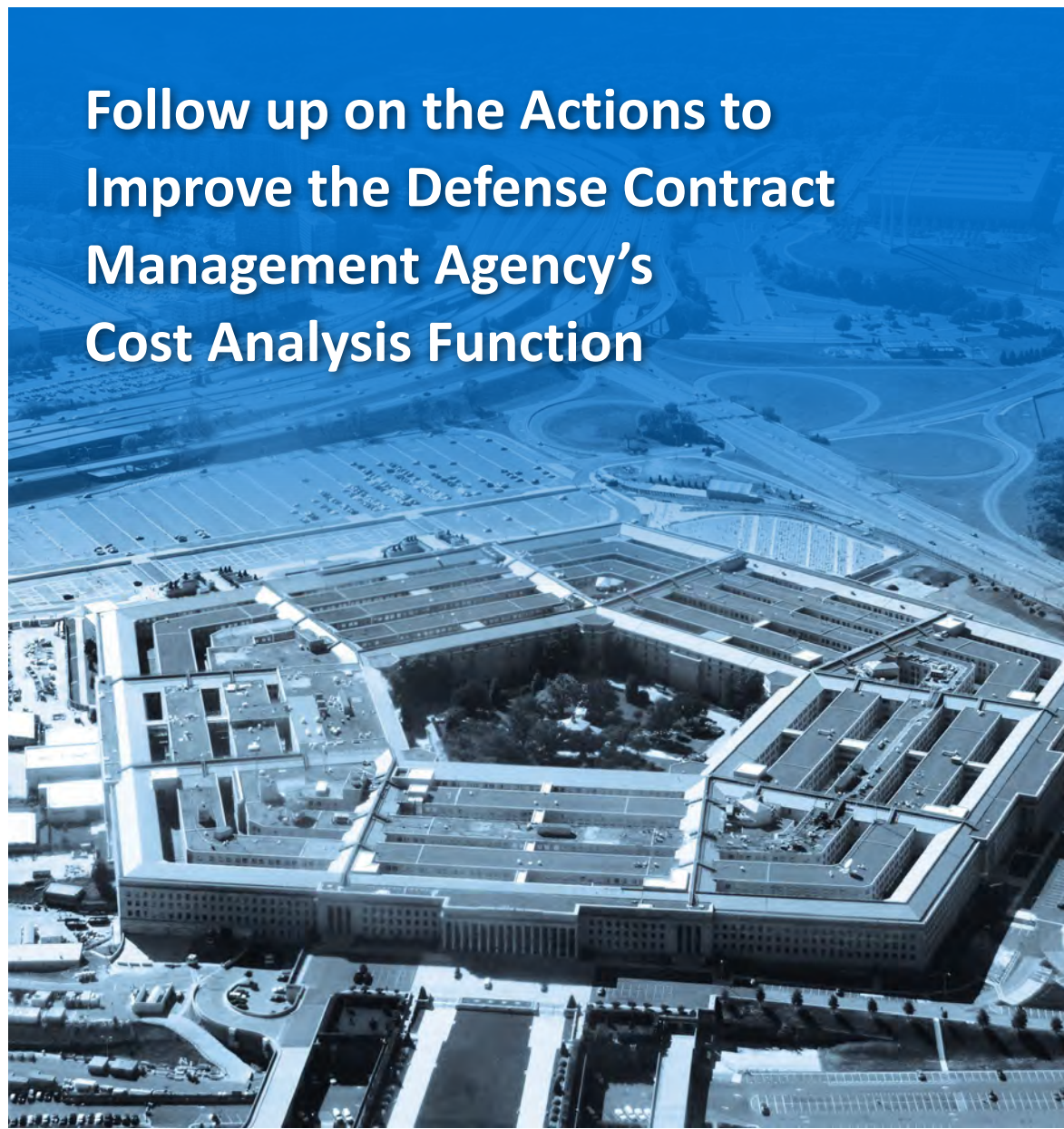
INSPECTOR GENERAL

U.S. Department of Defense

OCTOBER 29, 2015



Follow up on the Actions to Improve the Defense Contract Management Agency's Cost Analysis Function



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Results in Brief

Follow up on the Actions to Improve the Defense Contract Management Agency's Cost Analysis Function

October 29, 2015

Objective

We conducted this evaluation to follow up on the corrective actions taken by Defense Procurement and Acquisition Policy (DPAP), Defense Pricing (DP), and Defense Contract Management Agency (DCMA) in response to our previous Report No. DODIG-2013-015, "Actions to Align Defense Contract Management Agency and Defense Contract Audit Agency Functions," November 13, 2012.

Findings

DPAP, DP, and DCMA made progress in addressing our prior recommendations. However, they have not fully resolved our prior recommendations.

DPAP and DP did not monitor the progress DCMA has made in performing the cost analysis function after the audit thresholds changed. Monitoring by DPAP and DP may have resulted in detecting DCMA's continued cost analysis inadequacies and resolving the inadequacies in a timely manner.

In addition, DCMA's cost analysis case file documentation still does not demonstrate that DCMA cost analysts are performing sufficient steps to determine if a contractor's price proposal represents a fair and reasonable price, as Federal Acquisition Regulation 15.404-1(a)(3) requires.

Findings (cont'd)

DCMA also still cannot reliably report on its cost analysis performance and results. Without reliable information, DCMA cannot demonstrate to DoD and the taxpayer that DCMA cost analyses can achieve an annual return comparable to the return that Defense Contract Audit Agency had achieved.

Recommendations

We recommend that the Directors of DPAP and DP monitor the impact of the audit thresholds change involving the DCMA cost analysis function.

We recommend that the Director, DCMA:

- Modify DCMA policy and improve DCMA oversight to help ensure that cost analysis case files include sufficient documentation.
- Implement planned corrective actions to enable reliable data collection and reporting of its cost analysis function.

Management Comments

The Directors of DPAP (responding for DPAP and DP) and DCMA agreed with the recommendations. Their comments and planned corrective actions addressed all the specifics of the recommendations, and no additional comments are required.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Defense Procurement and Acquisition Policy		A
Defense Pricing		A
Defense Contract Management Agency		B.1, B.2, C.1, and C.2



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

October 29, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
DIRECTOR, DEFENSE PRICING
DIRECTOR, DEFENSE PROCUREMENT AND ACQUISITION POLICY
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Follow up on the Actions to Improve the Defense Contract Management Agency's
Cost Analysis Function (Report No. DODIG-2016-005)

We are providing this report for your information and use. As previously reported in November 2012, the Defense Contract Management Agency (DCMA) cannot demonstrate that it performs adequate cost analyses on proposals below the audit thresholds and reports reliable performance statistics on its cost analysis efforts. In addition, neither Defense Procurement and Acquisition Policy (DPAP) nor DCMA can show that DCMA achieves an annual rate of return comparable to the return that Defense Contract Audit Agency achieved before the change in audit thresholds. Although DCMA has shown progress, DCMA has not completed all of its planned corrective actions and has implemented others that are not effective. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE), "Quality Standards for Inspection and Evaluation."

DoD Instruction 7650.03 requires that recommendations be resolved promptly. We considered management comments on a draft of this report when preparing the final report. Comments from the Directors of DPAP (responding for DPAP and Defense Pricing) and DCMA conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to Ms. Carolyn R. Hantz at (703) 604-8877, or e-mail at carolyn.hantz@dodig.mil.

A handwritten signature in black ink, appearing to read "R. Stone", is written over a horizontal line.

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Introduction

Objective

We conducted this evaluation to follow up on the corrective actions taken by Defense Procurement and Acquisition Policy (DPAP), Defense Pricing (DP), and Defense Contract Management Agency (DCMA) in response to Report No. DODIG-2013-015, “Actions to Align Defense Contract Management Agency and Defense Contract Audit Agency Functions,” November 13, 2012. See Appendix A for our scope and methodology.

Background

Defense Pricing

DP reports to the Under Secretary of Defense for Acquisition, Technology, and Logistics. DP uses the staff of DPAP to accomplish its mission. The DP mission is to enable DoD Components to effectively deliver goods and services that meet the needs of the warfighter, while ensuring a contract that is in the best interests of the taxpayer. As part of its mission, DP oversees the Secretary of Defense’s Better Buying Power Initiatives¹ and DoD-wide pricing policies and strategies.

Defense Procurement and Acquisition Policy

DPAP is a directorate under the authority, direction, and control of the Under Secretary of Defense for Acquisition, Technology, and Logistics. DPAP is responsible for establishing contracting and procurement policy within DoD. DPAP establishes that policy primarily through updates to the:

- Defense Federal Acquisition Regulation Supplement (DFARS);
- DFARS Procedures, Guidance, and Information (PGI);
- DoD Directive 5000.01, “The Defense Acquisition System,” November 20, 2007; and
- DoD Instruction 5000.02, “Operation of the Defense Acquisition System,” January 7, 2015.

¹ Launched in 2010, Better Buying Power is the implementation of best practices to strengthen the Defense Department’s buying power, improve industry productivity, and provide an affordable, value-added military capability to the warfighter.

Defense Contract Audit Agency

Defense Contract Audit Agency (DCAA) operates in accordance with DoD Directive 5105.36, "Defense Contract Audit Agency," January 4, 2010, and reports to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. DCAA performs contract audits for DoD and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration.

If requested by a cognizant DoD contracting officer, DCAA will audit a contractor's price proposal to determine if the proposed costs are allowable, allocable, and reasonable in accordance with the Federal Acquisition Regulation (FAR), DFARS, and Cost Accounting Standards. The contracting officer will then consider the results of the audit in establishing a fair and reasonable price on behalf of the Government.

Defense Contract Management Agency

DCMA reports to the Assistant Secretary of Defense for Acquisition. DCMA is the DoD component that works directly with Defense suppliers to help ensure that DoD, Federal, and allied Government supplies and services are delivered on time, at projected cost, and meet all performance requirements. Before contract award, DCMA provides advice and information to help construct effective solicitations, identify potential risks, select the most capable contractors, and write contracts that meet the needs of their customers in DoD, Federal, and allied Government agencies.

Federal Acquisition Regulation Subpart 15.4

FAR Subpart 15.4, "Contract Pricing," prescribes the cost and price negotiation policies and procedures for negotiating prime contracts (including subcontracts) and contract modifications. FAR Subpart 15.4 and DFARS 215.4, "Contract Pricing," also describe the responsibilities and functions for the audit, analysis, and negotiation of price proposals, and related matters concerning negotiated procurements. Field pricing support consists of all audit and other specialist effort necessary for the contracting officer to determine the reasonableness of the proposed cost or price. FAR 15.404-2, "Data to Support Proposal Analysis," states the contracting officer is responsible for determining the extent of field pricing support required to evaluate a contractor's price proposal. However, DFARS PGI 215.404-2(c), "Audit assistance for prime contracts or subcontracts," identifies the dollar thresholds a contractor price proposal must meet before a contracting officer can request a DCAA audit.

On September 17, 2010, DPAP revised DFARS PGI 215.404-2(c) to increase the following audit thresholds a contractor's price proposal must meet before a contracting officer can request a DCAA audit.

- Fixed-price proposals increased from \$650,000 to \$10 million.
- Cost-type proposals increased from \$10 million to \$100 million.

For proposals below these thresholds, the DFARS states that a contracting officer should consider requesting other field pricing assistance, such as a cost analysis. DCMA is responsible for performing a cost analysis if a DoD contracting officer requests one. FAR 15.404-1(c)(1) defines a cost analysis as:

The review and evaluation of any of the separate cost elements and profit or fee in an offeror's or contractor's proposal as needed to determine a fair and reasonable price or to determine cost realism, and the application of judgment to determine how well the proposed costs represent what the cost of the contract should be, assuming reasonable economy and efficiency.

In contrast DCAA performs an audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Report No. DODIG-2013-015

On November 13, 2012, we issued Report No. DODIG-2013-015, which reported that DPAP lacked a business case analysis to support revising the audit thresholds. We estimated that the revised thresholds resulted in a potential loss of \$249 million to the taxpayer. In addition, we found that DCMA was not prepared to perform an adequate cost analysis and could not reliably report the results of its analysis efforts agency-wide. DPAP, DP, and DCMA agreed to take several actions in response to our recommendations. Among them, DCMA developed a corrective action plan for improving the adequacy of its cost analysis and for reliably reporting the results. Findings A through C of this report address the details of our previously reported recommendations and our evaluation of the actions that DPAP, DP, and DCMA took in response to the recommendations.

Finding A

DPAP and DP Need to Monitor the DCMA Cost Analysis Function Due to the Thresholds Change

DPAP and DP have not monitored the progress DCMA made in performing the cost analysis function on price proposals below the audit thresholds. Effective monitoring by DPAP and DP would have positioned them to identify DCMA's challenges and implement corrective actions in a timely manner. Instead, 5 years after the thresholds changed, DCMA still does not perform a cost analysis function that complies in all respects with the FAR requirements and has not been able to demonstrate a return on investment comparable to DCAA (see Findings B and C).

Report No. DODIG-2013-015, Finding A

In Finding A of Report No. DODIG-2013-015, we stated that DPAP and DP did not perform a sufficient business case analysis to support the decision to revise DFARS PGI 215.404-2(c). A sufficient business case analysis would have considered the risks to DoD, including the potential rates of return across the DCAA audit portfolio.

Report No. DODIG-2013-015, Recommendation A.2

DPAP should reinstate the pre-September 17, 2010 thresholds for requesting a DCAA audit identified at DFARS PGI 215.404-2(c) as soon as practical until such time as a business case analysis can support a policy change.

DPAP and DP partially agreed, stating they would continue to monitor the results of the decisions made and, if the facts merit a change in policy, they would modify the present PGI as appropriate.

Report No. DODIG-2013-015, Recommendation A.3

DP should reassess the decision to revise DFARS PGI 215.404-2(c) and validate that the decision sufficiently considers the potential return resulting from DCAA audits and DCMA's capability to sufficiently perform the work and reliably report performance.

DPAP and DP partially agreed, stating they continually analyze the use of DoD's scarce resources to determine the best use of those resources.

Evaluation of Management Actions on Previous Recommendation A.2

In its January 10, 2013, response to Report No. DODIG-2013-015, and during our followup, DPAP and DP advised that it does not intend to reinstate the pre-September 17, 2010, audit thresholds.

Since Report No. DODIG-2013-015 was issued, DPAP and DP monitored DCAA's performance data to assess the impact of the decision to revise the audit thresholds. The Components obtained DCAA's 2010 through 2014 performance data showing that DCAA:

- reduced the incurred cost backlog since 2009,
- achieved a higher rate of return for DoD and the taxpayer since 2010, and
- increased the amount of questioned costs for each dollar it examined since 2010.

Based on DCAA's improved performance, DPAP and DP elected to maintain the audit thresholds in effect after September 17, 2010.

However, DPAP and DP have not monitored the progress DCMA has made in performing the cost analysis function on proposals below the audit thresholds. If DPAP and DP had monitored DCMA's progress since the thresholds change, the agencies may have detected DCMA's cost analysis inadequacies and formulated timely actions for resolving them.

Monitoring DCMA would have placed DPAP and DP in a better position to demonstrate that DCMA's analyses of contractor proposals below the thresholds are being analyzed sufficiently to protect the interests of DoD and the taxpayer. Instead, DCMA still does not adequately document its cost analysis, cannot reliably report performance statistics, and has not demonstrated a comparable rate of return (see Findings B and C).

Evaluation of Management Actions on Previous Recommendation A.3

DPAP and DP reassessed their September 17, 2010, decision to revise DFARS PGI 215.404-2(c) and, as discussed previously, elected to maintain the revised audit thresholds. As part of their reassessment, the Components considered the potential return to DoD and the taxpayer by obtaining key performance data from DCAA. However, DPAP and DP did not consider DCMA's capability to sufficiently perform the work and reliably report performance.

DPAP and DP should have assessed the impact of the change in thresholds on the missions of both DCAA and DCMA, including whether DCMA was capable of competently performing a cost analysis of proposals below the thresholds. Nevertheless, as part of our followup, DCMA demonstrated to us that it is capable of performing the work, based on corrective actions it has taken so far in response to our previous report. Further, DCMA is positioned to perform an adequate cost analysis once it takes corrective actions in response to Recommendations B and C of this report.

Conclusion

For Recommendation A.2 in Report No. DODIG-2013-015, DPAP and DP have made progress by monitoring the impact of the change in thresholds on DCAA performance. However, DPAP and DP should monitor the impact of the change in audit thresholds on DCMA until it can report on and perform adequate cost analysis.

For prior Recommendation A.3, DPAP and DP did not consider DCMA's capability to sufficiently perform the work. However, during our followup, DCMA demonstrated to us it has the capability to perform the work and reliably report performance. Therefore, no further action is required from DPAP and DP on prior Recommendation A.3.

Recommendation, Management Comment, and Our Response

Recommendation A

We recommend that the Directors of Defense Procurement and Acquisition Policy and Defense Pricing monitor the impact of the audit thresholds decisions until the Defense Contract Management Agency can sufficiently perform a cost analysis of proposals below the audit thresholds and report reliable cost analysis statistics.

Director of Defense Procurement and Acquisition Policy Comments

The Director, DPAP (responding for DPAP and DP), agreed to monitor and work with DCMA to ensure it provides and can reliably report on its cost analysis function.

Our Response

Comments from the Director, DPAP, addressed all specifics of the recommendation, and no further comments are required.

Finding B

DCMA Needs to Improve Cost Analysis Documentation

Although DCMA has shown improvement, DCMA's cost analysis case file documentation still does not demonstrate that cost analysts are performing sufficient steps to determine if a contractor's price proposal represents a fair and reasonable price, as FAR 15.404-1(a)(3)² requires. DCMA case file documentation issues persist because DCMA has not effectively implemented our recommendations or applied sufficient supervisory oversight of the analysts. Without adequate case file documentation, the Department cannot demonstrate that DCMA is protecting DoD and the taxpayer from paying unreasonable prices on proposals that are below the audit thresholds.

² The objective of a proposal analysis is to ensure that the final agreed-to price is fair and reasonable. FAR 15.404-1(a)(3) provides that "[c]ost analysis shall be used to evaluate the reasonableness of individual cost elements when certified cost or pricing data are required. Price analysis should be used to verify that the overall price offered is fair and reasonable."

Report No. DODIG-2013-015, Finding B

In Finding B of Report No. DODIG-2013-015, we stated that DCMA cost analysis case file documentation did not demonstrate that the contractor's proposal represents a fair and reasonable price, as FAR 15.404-1(a)(3) requires. For the 13 DCMA cost analysis files we evaluated, the case file documentation did not demonstrate compliance with the FAR or DCMA Instruction Folder No. 22, "Pricing and Negotiation-Contracts." We also questioned the sufficiency of DCMA's case file documentation in areas other than price and cost analysis. Before issuing our report, DCMA agreed with our findings and developed a corrective action plan titled, Cost Analysis Discussion Execution Plan to address the lack of cost analysis case file documentation (see Appendix B).

Report No. DODIG-2013-015, Recommendation B.1

DCMA should evaluate the existing case file documentation for areas other than price and cost analysis to ensure such documentation demonstrated compliance with the FAR, Cost Accounting Standards, and DCMA internal policies and procedures.

Report No. DODIG-2013-015, Recommendation B.2

DCMA should proceed with the scheduled implementation of the Execution Plan milestones identified in the Cost Analysis Discussion Execution Plan (see Appendix B, pages 24 through 26).

Evaluation of Management Actions on Previous Recommendation B.1

DCMA demonstrated that it conducts periodic internal and supervisory reviews of case file documentation in the following other areas (those areas not involving cost or price analysis³):

- forecasting of future business conditions that would affect pricing proposals;
- requesting and integrating technical reports into final field pricing reports;
- determining proposal compliance with law, regulations, and the Cost Accounting Standards; and
- reviewing forward pricing rates, final overhead rates, and cost impact proposals.

We verified that DCMA management takes corrective action on any issues identified during the internal and supervisory reviews. These actions satisfy the intent of Recommendation B.1, and no further action is required.

Evaluation of Management Actions on Previous Recommendation B.2

DCMA completed the implementation of the Cost Analysis Discussion Execution Plan. DCMA believes the resulting corrective actions provide reasonable assurance that a DCMA cost analysis complies with FAR 15.404-1(a)(3).

As shown in Table 1, we categorized the DCMA corrective actions (also referred to as “Execution Plan milestones”) into four common areas.

³ In accordance with FAR 15.404-1(a)(3) price analysis should be used to verify that the overall price offered is fair and reasonable.

Table 1. Cost Analysis Execution Plan Items 1-3 Separated into Four Areas

Execution Plan Milestone Description	Area	Appendix B Page No.
Execution Plan Item 2 – <ul style="list-style-type: none"> • DCMA Pricing Course Deployment • Engagement with Defense Acquisition University (DAU) on Pricing Courses 	Training	Page 25
Execution Plan Item 2 – <ul style="list-style-type: none"> • Initial Operational Capability – Integrated Cost Analysis Teams Execution Plan Item 3 – <ul style="list-style-type: none"> • Initial Operational Capability - Pricing Support Sites • Explore Including Navy Price Fighter Function Within DCMA 	Organizational Structure	Page 25 and Page 26
Execution Plan Items 2 and 3 – <ul style="list-style-type: none"> • Release Policy for Formal Coordination (Coordinated Again Due to Integrated Cost Analysis Teams Update) • Director’s Signature 	Policy	Page 25 and Page 26
Execution Plan Item 1 – <ul style="list-style-type: none"> • Mission Review Team 	Internal Oversight	Page 24

Training and Organizational Structure

DCMA implemented effective corrective actions in the areas of training and organizational structure. For these areas, no further action is required from DCMA.

For the policy and internal oversight areas, DCMA either did not fully implement the corrective actions or the corrective actions did not satisfy the intent of our recommendation.

Policy

We verified that DCMA completed the corrective actions involving policy. Specifically, DCMA:

- enhanced the discussion of cost analysis in DCMA Instruction 120, “Pricing and Negotiation,”⁴ and
- implemented a mandatory Case File Documentation Checklist and a Cost and Pricing Analysis Report Template.

However, DCMA needs to make additional policy changes to provide reasonable assurance that DCMA adequately performs and documents a cost analysis in accordance with the FAR 15.404-1(c) and other applicable regulations.

⁴ DCMA Instruction 120 replaced Instruction 22, “Pricing and Negotiation – Contracts,” on July 31, 2012 providing policy, responsibilities, and procedures for contract pricing and negotiation.

DCMA should revise its policies to incorporate:

- performing a risk assessment and the actions taken by the analyst to mitigate identified risks;
- identifying whether the cost element reviewed was fair and reasonable;
- emphasizing that a price analysis should be performed as part of a cost analysis;
- verifying that the contractor's price proposal complies with FAR Part 31, "Contract Cost Principles and Procedures," the contractor's disclosed practices, and the Cost Accounting Standards; and
- standardizing the DCMA case file, such as the mandatory use of a standard index, to improve consistency.

Although DCMA recently added these elements to its training curriculum, DCMA has not incorporated them into written policy. Incorporating these key elements as formal policy will provide a higher level of assurance that the DCMA analyst will consistently accomplish them.

Internal Oversight

We verified that DCMA completed the following corrective actions related to internal oversight.

- The Mission Review Team⁵ incorporated the revised portions of DCMA Instruction 120 into its guide for conducting internal reviews.
- The Mission Review Team used the revised guide to conduct internal reviews.

However, we determined DCMA still needs to take corrective action to address the following flaws.

- The Mission Review Team does not assess the sufficiency of the cost analysis procedures performed. The team checks only whether a supervisor has approved the resulting cost pricing analysis report.
- The Mission Review Team guide does not list all applicable FAR criteria for determining whether the cost analysis complies with the FAR.
- DCMA does not have a mechanism to address and correct agency-wide issues identified during internal reviews that affect fair and reasonable pricing. DCMA acknowledged this concern and is in the process of implementing the "Agency Corrective Action Plan Tracking Project" to correct it.

⁵ The Mission Review Team is a group within DCMA's Office of Independent Assessment that performs internal reviews that assess the effectiveness and compliance with regulatory and policy requirements.

Evaluation of DCMA Case File Documentation

To evaluate the effectiveness of DCMA's corrective actions taken to date, we selected 15 cost analysis reports issued by 5 DCMA field offices; including 2 offices that had established integrated cost analysis teams.⁶ The results of our evaluation reflect that DCMA has improved its case file documentation since the prior evaluation. However, in all 15 cases, we still found instances where the documentation did not comply with the FAR or DCMA Instruction 120 requirements. We developed and used the checklist shown in Appendix C to perform our evaluation of the 15 cases. The following table summarizes the current and prior evaluation results.

Table 2. Results of DCMA Case File Evaluation

Description	Current Results	Prior Results
a. Number of case files evaluated.	15	13
b. Number of checklist items where the documentation did not comply with FAR or DCMA Instruction 120	145	425
c. Number of applicable checklist questions for all cases (answered as "yes" or "no")	431	558
Non-compliance Percentage*	34%	76%

* Note: The non-compliance percentage was calculated by dividing the number of checklist items from (line b.) by the number of applicable checklist questions for all cases (line c.).

The DCMA field offices that issued the 15 reports agreed with our checklist results. For the 15 cases, our evaluation disclosed continued systemic deficiencies with the case file documentation. The case file documentation still does not demonstrate that the analyst:

- performed a risk assessment and the actions the analyst took to mitigate identified risks;
- reported on whether a cost element is fair and reasonable;
- completed a price analysis to verify that the proposed price is fair and reasonable, in accordance with FAR 15.404-1(a)(3);
- verified that the contractor's price proposal complied with FAR Part 31, "Contract Cost Principles and Procedures," the contractor's disclosed practices, and Cost Accounting Standards; and
- used a consistent approach to documenting the DCMA case file, such as the mandatory use of a standard index.

⁶ In March 2012, DCMA began establishing integrated cost analysis teams as part of DCMA's strategy to rebuild its pricing capability. These teams include staff located only within field offices at major DoD contractor locations that are dedicated to (1) provide complete proposal analysis, (2) support customer proposal negotiations, and (3) perform a continuous evaluation of the contractor's proposal pricing system.

As discussed in the Policy section of this report, DCMA needs to revise its policies to address these same issues. Once DCMA revises its policies, this should provide reasonable assurance that cost analysts will appropriately document the case file and comply with the FAR.

Conclusion

In response to Recommendation B.1 in Report No. DODIG-2013-015, DCMA demonstrated that it conducts periodic internal and supervisory reviews that satisfy the intent of this recommendation. Therefore, no further action is required from DCMA on Recommendation B.1.

Regarding Recommendation B.2 of Report No. DODIG-2013-015, DCMA has made progress in implementing corrective actions, as evidenced by the reduced number of noncompliances we found with case file documentation. However, DCMA still needs to implement corrective actions in the areas of policy and internal oversight. These actions should resolve systemic deficiencies and provide reasonable assurance that cost analysis case files comply with FAR 15.404, “Proposal Analysis,” and DCMA Instruction 120. Unless DCMA implements effective policy and oversight, the systemic deficiencies may persist. Consequently, DCMA cannot demonstrate with reasonable assurance that its cost analysis efforts, in all instances, protect DoD and the taxpayer from paying unreasonable prices on contractor proposals falling below the audit thresholds.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Director, Defense Contract Management Agency modify Defense Contract Management Agency policies to help ensure that cost analysis case files include documentation to demonstrate that Defense Contract Management Agency analysts:

- a. Performed a risk assessment and documented the actions the analyst took to mitigate identified risks.**
- b. Reported on whether the cost element is fair and reasonable.**
- c. Completed a price analysis to verify that the proposed price is fair and reasonable.**

- d. **Verified that the contractor's price proposal complied with Federal Acquisition Regulation Part 31, "Contract Cost Principles and Procedures," the contractor's disclosed practices, and Cost Accounting Standards.**
- e. **Used a consistent approach to documenting the case file, such as the mandatory use of a standard index.**

Director, Defense Contract Management Agency Comments

The Director, DCMA agreed and stated that DCMA is revising DCMA Instruction 120, "Pricing and Negotiation," to emphasize documentation of agency case files and stress the items listed in Recommendation B.1.

Our Response

Comments from the Director, DCMA, addressed all specifics of the recommendation, and no further comments are required.

Recommendation B.2

We recommend that the Director, Defense Contract Management Agency improve the Defense Contract Management Agency oversight of the cost analysis function by:

- a. **Assessing the sufficiency of the cost analysis procedures performed,**
- b. **Listing all applicable Federal Acquisition Regulation criteria in its guide for determining the adequacy of the cost analysis, and**
- c. **Implementing a mechanism to address and correct agency-wide issues identified during internal reviews.**

Director, Defense Contract Management Agency Comments

The Director, DCMA, agreed and stated that oversight of the DCMA cost analysis function will include reviewing the sufficiency of the cost analysis performed using applicable FAR criteria. According to the Director, DCMA implemented the "Agency Corrective Action Plan Tracking Project" as the mechanism to address and correct agency-wide issues identified during internal reviews. However, the operating procedures for the project are still in development.

Our Response

Comments from the Director, DCMA, addressed all specifics of the recommendation, and no further comments are required.

Finding C

DCMA Should Improve Data Reliability for Cost Analysis Performance and Results

DCMA still cannot demonstrate that the data derived from its Pricing & Negotiation (P&N) eTool is sufficiently reliable to report cost analysis performance and results. Without reliable information, DCMA cannot demonstrate to DoD and the taxpayer that DCMA cost analyses can achieve an annual return comparable to the return that DCAA had achieved. Although DCMA initiated corrective action, a newly implemented DoD policy on automated capabilities resulted in delaying the actions. For automated capabilities, all DoD capability requirements with the potential to exceed \$1 million in lifecycle costs are subject to business process reengineering and approval by the DoD Deputy Chief Management Officer. DCMA anticipates completing part of the corrective actions to improve data reliability by August 2015.

Report No. DODIG-2013-015, Finding C

In Finding C of Report No. DODIG-2013-015, we stated that data derived from the P&N eTool for contractor proposals that were below the audit thresholds is not sufficiently reliable to track:

- the number of cost analysis reports issued,
- the total proposed costs analyzed, and
- the total questioned costs reported.

Without reliable information, we reported that DCMA cannot demonstrate to the taxpayer that the decision to replace DCAA audits with DCMA cost analyses will result in potential rates of return that are comparable to those previously achieved by DCAA. During the prior evaluation, DCMA implemented a corrective action plan, the P&N eTool Discussion Execution Plan (see Appendix B) to enhance data reliability.

Report No. DODIG-2013-015, Recommendation C.1

DCMA should revise the eTool so that it can reliably report all significant activity performed by the price/cost analyst.

Report No. DODIG-2013-015, Recommendation C.2

DCMA should proceed with the scheduled implementation of corrective actions relating to eTool identified in its action plan, “P&N eTool Discussion Execution Plan” items 1 through-8 (see Appendix B, pages 21 through 24).

Evaluation of Management Actions on Previous Recommendation C.1

DCMA has not made tangible progress in the development of an updated P&N eTool. Although DCMA initiated several planned corrective actions, the actions were delayed because DoD instituted a revised approval requirement for automated capabilities. All DoD automated capability changes with the potential to exceed \$1 million, agencies must subject the change to a “business process reengineering” and obtain approval from the DoD Deputy Chief Management Officer. Because the contemplated changes are expected to exceed \$1 million, they are currently under review by a DCMA business process reengineering team. As a result, DCMA still cannot demonstrate that the P&N eTool can reliably report all significant activity performed by the DCMA price/cost analyst. Recommendation C.1 is unresolved and DCMA needs to complete its planned corrective actions.

Evaluation of Management Actions on Previous Recommendation C.2

In accordance with items 1 through 6 of DCMA’s action plan, P&N eTool Discussion Execution Plan, DCMA developed a “hot-fix”⁷ to improve the immediate data reliability deficiencies of the P&N eTool by:

- enhancing the ability to track the status of cases,
- increasing data integrity, and
- providing more useful reports.

DCMA advised that the hot-fix should be implemented in August 2015.

We cannot test the effectiveness of the hot-fix until DCMA completes the implementation. Without the hot-fix, DCMA does not have the capability to report on its performance statistics and demonstrate whether it is achieving an annual return comparable to the return that DCAA had achieved.

⁷ The “hot-fix” includes information that is used to address a problem in a software product. The change is made quickly and outside normal development and testing processes.

In accordance with item 7, of DCMA's action plan, the Mission Review Team conducted reviews on P&N eTool data integrity during 2013 and 2014. However, the Mission Review Team did not update its guide to adequately assess data integrity within the eTool.

DCMA did not take action on item 8 of DCMA's action plan. DCMA needs to update related procedures once it revises the P&N eTool.

Conclusion

DCMA still cannot reliably report on the number of cost analysis cases performed, the dollar value of contractor proposals analyzed, and the questioned costs reported. The DCMA corrective actions taken to date do not yet satisfy prior Recommendations C.1 and C.2. DCMA needs to complete its planned corrective actions for these recommendations in a timely manner. Without reliable information, DCMA cannot demonstrate to DoD and the taxpayer that DCMA can achieve an annual return comparable to the return that DCAA had achieved.

Recommendations, Management Comments, and Our Response

Recommendation C.1

We recommend that the Director, Defense Contract Management Agency implement corrective actions to enable the reliable reporting of all significant activity performed by the Defense Contract Management Agency price/cost analyst.

Director, Defense Contract Management Agency Comments

The Director, DCMA, agreed and explained that DCMA is engaged in a business process reengineering effort that considers the interdependencies of all pricing processes and existing material solutions. DCMA anticipates completing the process reengineering effort by December 31, 2016. In the meantime, DCMA will continue using the recently updated Pricing & Negotiation eTool.

Our Response

Comments from the Director, DCMA, addressed all specifics of the recommendation, and no further comments are required.

Recommendation C.2

We recommend that the Director, Defense Contract Management Agency implement the Price & Negotiation eTool corrective actions items 1 through 8 identified on Defense Contract Management Agency's original Execution Plan (see Appendix B).

Director, Defense Contract Management Agency Comments

The Director, DCMA, agreed and stated that while the business process reengineering effort continues DCMA has implemented critical changes to its Pricing & Negotiation eTool that are responsive to many of the DoD IG findings and to the recommendations for improvement identified in items 1 through 8 of DCMA's original Execution Plan.

Our Response

Comments from the Director, DCMA, addressed all specifics of the recommendation, and no further comments are required. The comments adequately address the completed actions for items 1 through 6 and the planned actions for items 7 and 8 of DCMA's original Execution Plan.

Appendix A

Scope and Methodology

We conducted this evaluation from October 2014 through June 2015 in accordance with the Council of Inspectors General on Integrity and Efficiency “Quality Standards for Inspection and Evaluation.” Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our objectives. We believe the evidence we obtained provides a reasonable basis for our findings, conclusions and recommendations. To accomplish our objective, we:

- evaluated actions performed by DPAP and DP in response to Recommendations A.2 and A.3 of Report No. DODIG-2013-015;
- reviewed actions performed by DCMA in response to Recommendations B.1, B.2, C.1, and C.2, outlined in Report No. DODIG-2013-015;
- interviewed acquisition officials to understand the actions performed in relation to the recommendations; and
- analyzed relevant documents.

We did not evaluate the corrective actions taken in response to Recommendation A.1 of Report No. DODIG-2013-015. Recommendation A.1 states that DCAA should implement a risk-based audit planning process that directs limited DCAA audit resources to high risk audit areas. We are evaluating the corrective actions that DCAA took on this recommendation under a separate project.

As part of our evaluation of corrective actions DCMA took in response to prior Recommendation B.2, we used a sample of 15 Cost Pricing Analysis Reports (including the cost analysis case file documentation) that 5⁸ DCMA field offices issued between April 2014 and March 2015. Our sample includes only those cost analyses of contractor proposals in which:

- the dollar value fell below the DFARS PGI 215.404-2(c) thresholds for requesting audit assistance and
- the requirement to provide cost or pricing data applies, as provided in FAR 15.403-4, “Requiring Certified Cost or Pricing Data.”

We evaluated the case file documentation using a checklist we developed (see Appendix C), which covers the applicable cost analysis requirements contained in FAR subpart 15.4 and DCMA Instruction 120.

⁸ Of the five offices, three were previously evaluated as discussed in Report No. DODIG-2013-015.

Use of Computer-Processed Data

As part of our follow up of actions to address Recommendations A.2 and A.3, DPAP provided us with DCAA performance reports that were based on data residing in DCAA's Management Information System. To determine the reliability of the reports, we reconciled the reported data to source documents and found no exceptions.

Prior Coverage

During the last 5 years, the DoD IG has issued two reports involving DCMA contract pricing actions (such as cost analysis reviews). The unrestricted DoD Inspector General reports can be accessed over the Internet at <http://www.dodig.mil>.

- DoD IG Report No. DODIG-2015-006, "Policy Changes Needed at Defense Contract Management Agency (DCMA) to Ensure Forward Pricing Rates Result in Fair and Reasonable Contract Pricing," October 9, 2014
- DoD IG Report No. DODIG-2013-015, "Actions to Align Defense Contract Management Agency and Defense Contract Audit Agency Functions," November 13, 2012

Appendix B

DCMA's Execution Plan June 28, 2012



DEFENSE CONTRACT MANAGEMENT AGENCY

DoDIG P&N eTool Discussion Items 1- 6

P&N eTool 1: Revise P&N eTool so that the services requested include the types of field pricing assistance identified in the FAR and provided by DCMA.

P&N eTool 2 : Input fields in the P&N eTool should be assessed for their importance, remove unnecessary fields and make the remaining fields mandatory for completion of the pricing case.

P&N eTool 3: P&N eTool reference material available to the users should be reviewed and updated where necessary to adequately define all P&N eTool input fields and report fields.

P&N eTool 4: Reporting strategy in the P&N eTool should be assessed in order to determine how best to satisfy the different user's expectations.

P&N eTool 5: Reports should be evaluated to determine and correct the inconsistencies between the P&N eTool and the reports and amongst the different reports.

P&N eTool 6: DCMA instruction should be created to ensure that control procedures are implemented to address the data integrity of the P&N eTool. These control procedures should include but not limited the following:

- data input to the system accurately reflects the underlying information;
- provide reasonable assurance that erroneous data, errors and irregularities are detected, reported, and corrected;
- enable users of the data to have a chance to bring attention to incorrect data or data that needs to be updated; and
- consistently capture all pricing cases and data elements.

ACQUISITION INSIGHT  GLOBAL ENGAGEMENT

DCMA's Execution Plan June 28, 2012 (cont'd)



DEFENSE CONTRACT MANAGEMENT AGENCY

Execution Plan P&N eTool Items 1- 6

Execution Strategy: We will give consideration to the DoDIG discussion items 1 through 6 during our assessment and revision of the tool, its manuals, training and reports.

Target Completion Date: April 2013

OPR: DCMA Headquarters Contracts Directorate/Timothy Callahan

Execution Plan Milestones	Original Planned	Revised Planned	Actual
Milestone A Approval – Concept design (new milestone A approval required to update records in new IT system)		June 12, 2012	June 28, 2011
Milestone B Approval – Concept Development	February 20, 2012	August 30, 2012	
Design of Tool, User's Manual, Tutorials and Functional Testing Complete	August 15, 2012	February 15, 2013	
Field/Customer Training Complete	October 15, 2012	February 15, 2013	
Instruct Field/Customers to load pricing cases	November 5, 2012	April 15, 2013	



DCMA's Execution Plan June 28, 2012 (cont'd)



DEFENSE CONTRACT MANAGEMENT AGENCY

DoDIG P&N eTools Discussion Item 7 Execution Plan

P&N eTools 7: DCMA Internal Review should consider our findings in future reviews and make assessing data integrity of the P&N eTools a priority in their assessment.

Execution Strategy: Once the current pricing policy update is completed, DCMA Office of Independent Assessment (DCMA Internal Review), Mission Review Team (MRT) will revise current Mission Review (MR) assessment methodology for future MRs to assess data integrity of the P&N eTools.

Target Completion Date: FYE 2013

OPR: DCMA Headquarters/Office of Independent Assessment, DM/Fred Kuhm

Execution Plan Milestones	Original Planned	Revised Planned	Actual
Updated Policy signed by Director.	December 20, 2011	July 30, 2012	
Revise MRT Pricing Assessment Guide and Workbook – Add emphasis on review of eTools data	January 5, 2012	August 15, 2012	
Complete MRT review and approval process	January 10, 2012	August 30, 2012	
Conduct MRs to evaluate P&N eTools and policy changes	November 15, 2012	Ongoing – CY 2012-2013	



DCMA's Execution Plan June 28, 2012 (cont'd)



DEFENSE CONTRACT MANAGEMENT AGENCY

DoDIG P&N eTool Discussion Item 8 Execution Plan

P&N eTool 8: DCMA should ensure that related policies and instructions are updated when implementing recommendations or changes resulting from our findings.

Execution Strategy: Our pricing policy is currently being revised to include consideration of the findings of the DoDIG; in addition, we will ensure that it is updated again in coordination with the P&N etool update schedule.

Target Completion Date: June, 2013

OPR: DCMA Headquarters/Contracts Directorate/Timothy Callahan

Execution Plan Milestones	Original Planned	Revised Planned	Actual
Release Policy for Formal Coordination (re-released due to ICAT changes)	November 15, 2011		April 3, 2012
Director's Signature	December 20, 2011	July 30, 2012	
Next review for accuracy	August 30, 2012	May 30, 2013	
Director's Signature	November 15, 2012	July 30, 2013	



DCMA's Execution Plan June 28, 2012 (cont'd)



DEFENSE CONTRACT MANAGEMENT AGENCY

DoDIG Cost Analysis Discussion Item 1 Execution Plan

Cost Analysis 1: Using the DoD OIG cost analysis case file checklist, DCMA Internal Review should perform a DCMA-wide independent assessment of cost analysis case file documentation to determine the extent to which the documentation problems identified at Manassas, Baltimore and Northrop Grumman Baltimore exist at other DCMA CMOs.

Initial Assessment: A dedicated team performed a review of 15 additional CMO sites using the DoDIG checklist and the findings were consistent with those found by the DoDIG.

Execution Strategy: We will incorporate the DoDIG discussion items into our existing Mission Review Pricing Assessment Guide and Workbook. Plan is to continue current review cycle of 22 CMOs per year by Agency Mission Review Team (MRT), DCMA Office of Independent Assessment. In addition, starting with the new integrated cost analysis teams, by Sept. CY12, we will fully assess the policy, processes, tools and training required for a highly functional pricing team. The results of this assessment will be used to ensure pricing across all CMOs is effective.

Target Completion Date: October 2012

OPR: DCMA Headquarters/Office of Independent Assessment, DM/Fred Kuhm

Execution Plan Milestones	Original Planned	Revised Planned	Actual
Revise MRT Pricing Assessment Guide and Workbook	January 5, 2012	August, 15, 2012	
Complete MRT review and approval process	January 10, 2012	August 30, 2012	
Utilize revised Assessment Guide to conduct remaining MRT Reviews	May 15, 2012	Sept 2012	
Utilize revised Assessment Guide to conduct reviews DCMA-wide for the new three year (Mission Review) cycle at all field CMOs	May 15, 2015	October 2012	

ACQUISITION INSIGHT  GLOBAL ENGAGEMENT

DCMA's Execution Plan June 28, 2012 (cont'd)



DEFENSE CONTRACT MANAGEMENT AGENCY

DoDIG Cost Analysis Discussion Item 2 Execution Plan

Cost Analysis 2: DCMA should establish and implement Agency-wide policies and procedures that will provide reasonable assurance that cost analysis on a contractor proposal submitted with cost or pricing data:

- A) Complies with the criteria for cost analysis included in FAR 15.404-1(c) and other pertinent FAR and DFARS criteria.
- B) Is adequately documented in a standardized case file.

Execution Strategy: We will enhance discussion of cost analysis in the current update of our Pricing and Negotiation Instruction and provide a checklist that will standardize the case file ; however, we will not establish GAGAS standards for the case. We are finalizing a pricing training course to emphasize these areas and will be working with DAU to ensure that their courses also emphasize these areas. The first pilot offering of our training course will be conducted beginning April 23, 2012. The course comprises both business and technical pricing training. We are enhancing our cost analysis capability at 8 contractor locations by forming Integrated Cost Analysis Teams (ICATs) comprised of dedicated business and technical proposal pricing personnel.

Target Completion Date: September, 2012

OPR: DCMA Headquarters/Contracts Directorate/Timothy Callahan

Execution Plan Milestones	Original Planned	Revised Planned	Actual
Release Policy for Formal Coordination (re-coordination due to ICAT update)	November 15, 2011		April 3, 2012
Director's Signature	December 20, 2011-	July 30, 2012	
DCMA Pricing Course Deployment	July 31, 2012		
Engagement with DAU on Pricing Courses	Ongoing		
Initial Operational Capability - ICATs	March 26, 2012	Sept 2012	



DCMA's Execution Plan June 28, 2012 (cont'd)



DEFENSE CONTRACT MANAGEMENT AGENCY

DoDIG Cost Analysis Discussion Item 3 Execution Plan

Cost Analysis 3: DCMA should establish and implement Agency-wide policies and procedures that will provide reasonable assurance that a technical analysis performed in support of a cost analysis on a contractor proposal submitted with cost or pricing data:

1. Complies with the criteria for cost analysis included in FAR 15.404-1(e) and other pertinent FAR and DFARS criteria.
2. Is adequately documented in a standardized case file

Execution Strategy: We will enhance discussion of these areas in the current update of our Pricing and Negotiation Instruction and provide a checklist that will standardize the case file ; however, we will not establish GAGAS standards for the case file. In addition, we are developing an organizational structure and mission statement for dedicated pricing and technical support (ICATs). We are enhancing our Pricing Center and HQ Engineering with additional technical personnel dedicated to pricing. The HQ focus will be on training and hub site focus will be on field assistance. Funding is being provided to the Navy Price Fighters for should cost reviews and tech support to pricing.

Target Completion Date: September 2012

OPR: DCMA Headquarters/Contracts Directorate/Timothy Callahan

Execution Plan Milestones	Original Planned	Revised Planned	Actual
Release Policy for Formal Coordination (re-coordination due to ICAT information)	November 15, 2011		April 4, 2012
Director's Signature	December 20, 2011	July 30, 2012	
Initial Operational Capability - Pricing Support Sites	March 26, 2012	Sept 2012	
Explore including Navy Price Fighter function within DCMA	March 26, 2012		Complete

ACQUISITION INSIGHT  GLOBAL ENGAGEMENT

Appendix C

DoD OIG Checklist Results of DCMA Case File Documentation

	Summary		
	Yes	No	N/A
1. PCO Request for Cost and Pricing Support			
a. Does the case file demonstrate that the subject of the cost analysis is a contractor proposal submitted with cost or pricing data in accordance with FAR 15.403-4(a)(1)?			
i. If yes, continue the review.	15		
ii. If no, continue the review and document in the space below the component's rationale for continuing the cost analysis.			15
b. Does the case file demonstrate that the subject of the cost analysis is a contractor proposal falling below the thresholds for requesting audit assistance from DCAA as specified at PGI 215.404-2(c)? [less than \$100 million for cost type and less than \$10 million for fixed price]			
i. If yes, continue the review.	15		
ii. If no, continue the review but document in the space below the component's rationale for performing the cost analysis.			15
c. Does the case file include the procuring contracting officer's request for a cost or pricing analysis submitted by the PCO in accordance with FAR 15.404-2(a)(1).			
i. If yes, did the PCO request a full proposal analysis? (FAR 15.402-2(a)(2))	15		
ii. If yes, did the procuring contracting officer tailor the request to a review of selected elements of proposed cost. (FAR 15.402-2(a)(2))			15
iii. If not, does the case file identify how the cost price analyst determined the scope of the services provided.			15
d. If the cost price analysis report (CPAR) demonstrates that DCMA provided field pricing services that differed from the PCO request, is there documentation to explain the difference?	3	2	10
2. ACO and Cost Price Analyst Proposal Adequacy Procedure			
a. Does the case file demonstrate that the assigned individual documented the proposal review for adequacy and any unresolved proposal adequacy issues in the pricing case or pre-negotiation objectives memorandum. (DCMA Instruction 120, 3.2 and Case File Checklist Q#18).	10	5	
b. For an offeror's proposal not determined adequate, does the case file documentation demonstrate the assigned Individual took the necessary actions to obtain an adequate proposal, including contacting the procuring activity or the contractor to discuss the deficiencies. (DCMA Instruction 120, 3.2.1.2)		1	14
c. If determined inadequate, does the case file demonstrate that the ACO complied with FAR 15.404-2(d) and took action to "...notify the contracting officer immediately if the data provided for review is so deficient as to preclude review ...".			15

DoD OIG Checklist Results of DCMA Case File Documentation (cont'd)

	Summary		
	Yes	No	N/A
3. Cost Analysis Compliance with FAR			
a. Does the case file documentation demonstrate the assigned individual at the prime contractor or subcontractor level completed the Case File Documentation Checklist located on the DCMA policy resource webpage for every field pricing support and negotiation support case involving a proposal analysis whether or not DCMA has been asked to review parts or all of a proposal. (DCMA Instruction 120, paragraph 3.1.2.6.)	9	6	
b. Does the case file documentation demonstrate the assigned individual assessed the complexity and circumstances of the acquisition when determining the level of detail and analysis required as prescribed by FAR 15.404-1(a)(1).	11	4	
c. Does the case file demonstrate the assigned individual used the cost analysis to evaluate the reasonableness of individual cost elements when certified cost or pricing data are required, in accordance with FAR 15.404-1(a)(3) and DCMA INST 120, paragraph 3.3.2.2.1.	15		
d. Does the case file demonstrate the cost analysis techniques and procedures used by the assigned individual, including those identified at FAR 15.404-1(c)(2), including DFARS 215.404-1 and DFARS/PGI 215.404-1.			
i. For only those cost elements in the proposal that were reviewed.	15		
ii. For all of the cost elements in the proposal.	15		
iii. Were other procedures performed that would have protected the Government's interest.	3	12	
iv. Did the assigned individual demonstrate that the proposed cost of the cost element reviewed was fair and reasonable.		15	
e. Does the case file demonstrate the assigned individual used price analysis to verify that the overall price offered is fair and reasonable in accordance with FAR 15.404-1(a)(3) and DCMA INST 120, paragraph 3.3.2.1.2.		15	
f. Does the case file demonstrate the assigned individual applied judgment to determine how well the proposed costs represent what the cost of the contract should be, assuming reasonable economy and efficiency, as provided in FAR 15.404-1(c)(1) and DCMA INST 120, paragraph 3.3.2.2.	15		
g. Does the case file demonstrate compliance with FAR 15.404-1(c)(2)(i), verification of cost data and evaluation of cost elements, including			
i. The necessity for, and reasonableness of, proposed costs, including allowances for contingencies; [FAR 15.404-1(c)(2)(i)(A)]	5	10	
ii. Projection of the offeror's cost trends, on the basis of current and historical cost or pricing data; [FAR 15.404-1(c)(2)(i)(B)]	15		
iii. Reasonableness of estimates generated by appropriately calibrated and validated parametric models or cost-estimating relationships; [FAR 15.404-1(c)(2)(i)(C)]	6	9	

DoD OIG Checklist Results of DCMA Case File Documentation (cont'd)

	Summary		
	Yes	No	N/A
iv. The application of audited or negotiated indirect cost rates, labor rates, and cost of money or other factors. [FAR 15.404-1(c)(2)(i)(D)]	12		3
h. Does the case file demonstrate compliance with FAR 15.404-1(c)(2)(iii), i.e., comparison of costs proposed by the offeror for individual cost elements with—			
i. Actual costs previously incurred by the same offeror; [FAR 15.404-1(c)(2)(iii)(A)]	12	3	
ii. Previous cost estimates from the offeror or from other offerors for the same or similar items; and [FAR 15.404-1(c)(2)(iii)(B)]	13	2	
iii. Forecasts of planned expenditures. [FAR 15.404-1(c)(2)(iii)(E)]	9	6	
i. Does the case file demonstrate compliance with FAR 15.404-1(c)(2)(iv), i.e., verification that the offeror's cost submissions are in accordance with the contract cost principles and procedures in part 31 and, when applicable, the requirements and procedures in 48 C.F.R. Chapter 99 (Appendix to the FAR loose-leaf edition), Cost Accounting Standards.	2	13	
j. Does the case file demonstrate that the assigned individual complied with FAR 15.404-1(c)(2)(v) and performed a review to determine whether any cost data or pricing data, necessary to make the offeror's proposal suitable for negotiation, had not been either submitted or identified in writing by the offeror.			15
k. Does the case file demonstrate that the assigned individual complied with FAR 15.404-1(a)(6) and brought to the attention of the contracting officer for appropriate action any discrepancy or mistake of fact (such as duplications, omissions, and errors in computation) contained in the certified cost or pricing data submitted in support of a proposal.	1		14
l. Does the cost and pricing analysis report clearly state the proposal analysis techniques used in accordance with DCMA Instruction 120, paragraph 3.4.1.1.	15		
4. Compliance with 48 C.F.R. Chapter 99 Cost Accounting Standards			
a. Does the case file demonstrate that the cost price analyst determined that the proposed contract or subcontract is exempt from CAS in accordance with 48 C.F.R. 9903.201-1(b).	14	1	
b. Does the case file demonstrate that, if not exempt, the cost price analyst determined the type of CAS coverage (full, modified, or other types of CAS coverage) in accordance with the rules in 48 C.F.R. 9903.201-2.	2	13	
c. Does the case file demonstrate that, if not exempt from CAS, the cost price analyst determined whether, as specified at 48 C.F.R. 9903.202-1(b), a Completed Disclosure Statement from the contractor is required.	12	1	2

DoD OIG Checklist Results of DCMA Case File Documentation (cont'd)

	Summary		
	Yes	No	N/A
d. Does the case file demonstrate that, if not exempt from CAS, the cost price analyst determined whether, as specified at 48 C.F.R. 9903.202-6, the CFAO has made a determination of adequacy and that the contractor's Disclosure Statement adequately discloses its practices on the proposal.	4	9	2
e. Does the case file demonstrate that, if not exempt from CAS coverage, the cost price analyst evaluated the contractor's proposed cost for compliance with 48 C.F.R. 9904.401 and CAS relating to consistency in estimating, accumulating and reporting costs.	4	9	2
f. Does the case file demonstrate that, if not exempt from CAS coverage, the cost price analyst evaluated the contractor's proposed cost for compliance with 48 C.F.R. 9904.402 and CAS relating to consistency in allocating costs incurred for the same purpose?	4	9	2
5. Access to Contractor Records			
a. Does the case file demonstrate that the assigned individual accessed the contractor's accounting books and records to examine all records and other evidence sufficient to reflect properly all costs anticipated to be incurred directly or indirectly in performance of this contract. [FAR 52.215-2(b) and (c)]	15		
b. FAR 15.404-2(c)(4) provides that general access to the contractor's books and financial records is limited to the auditor. Does the case file demonstrate that the contractor denied, or attempted to deny, general access to the offeror's books and financial records to the assigned individual.			
i. If the contractor denied general access to the assigned individual, did the contractor make available any data and records necessary to analyze the offeror's proposal (see FAR 15.404-2(c)(4)).			15
ii. If the contractor did not provide or make available any data and records necessary to analyze the offeror's proposal, does the case file demonstrate that the ACO notified the procuring contracting officer immediately that the offeror had denied access to any records considered essential to conduct a satisfactory review, as required by FAR 15.404-2(d).			15
Total Responses	286	145	169
Combined "Yes" and "No" Responses	431		

Management Comments

Director of Defense Procurement and Acquisition Policy



ACQUISITION,
TECHNOLOGY,
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

SEP 16 2015

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR POLICY AND
OVERSIGHT, OFFICE OF THE INSPECTOR GENERAL

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *7/8 9/16/15*

SUBJECT: Response to DoDIG Draft Report on Follow up on the Actions to Improve the
Defense Contract Management Agency's Cost Analysis Function (Project No.
D2015-DAPOCF-0032.000)

As requested, I am providing responses to the general content and recommendations
contained in the subject report.

Recommendation: The Office of the Inspector General recommends that the Directors of
Defense Procurement and Acquisition Policy and Defense Pricing monitor the impact of the
audit threshold decisions until the Defense Contract Management Agency (DCMA) can
sufficiently perform a cost analysis of proposals below the audit thresholds and report reliable
cost analysis statistics.

Response: Concur. Defense Procurement and Acquisition Policy and Defense Pricing will
monitor and work with DCMA to ensure it provides and can reliably report on its cost analysis
function for requirements valued below the threshold for Defense Contract Audit Agency audits.

Please contact [REDACTED] if additional
information is required.

Claire M. Grady
Director, Defense Procurement
and Acquisition Policy

Director, Defense Contract Management Agency



DEFENSE CONTRACT MANAGEMENT AGENCY
3901 A AVENUE, BUILDING 10500
FORT LEE, VIRGINIA 23801-1809

OCT 15 2015

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL, AUDIT POLICY AND
OVERSIGHT, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Response to DODIG Draft Report, "Follow-up on the Actions to Improve the
Defense Contract Management Agency's Cost Analysis Function" September 1, 2015, (Project
D2015-DAPOCF-0032.000)

The attached is in response to the subject DODIG draft report dated September 1, 2015
that addresses the DCMA actions to implement recommendations stated in the report.

The point of contact for this response is [REDACTED]


Wendy M. Masiello, Lt Gen, USAF
Director

Attachments:
As stated

Director, Defense Contract Management Agency (cont'd)

D2015-DAPOCF-0032.000 DRAFT, "Follow up on the Actions to improve the Defense Contract Management Agency's Cost Analysis Function" September 1, 2015

Recommendation B.1.: Modify Defense Contract Management Agency policies to help ensure that cost analysis case files include documentation to demonstrate that Defense Contract Management Agency analysts:

- a. Perform a risk assessment and document the actions the analyst took to mitigate identified risks.
- b. Reported on whether the cost element is fair and reasonable.
- c. Completed a price analysis to verify that the proposed price is fair and reasonable.
- d. Verify that the contractor's price proposal complied with Federal Acquisition Regulation Part 31, "Contract Cost Principles and Procedures," the contractor's disclosed practices, and Cost Accounting Standards.
- e. Uses a consistent approach to documenting the case file, such as the mandatory use of a standard index.

DCMA response: Concur. We are in the process of revising DCMA Instruction 120, Pricing and Negotiation. The latest revisions to the instruction will emphasize documentation of agency case files and will stress all the procedures identified as items a. through d. The instruction will also discuss the proper annotation of the procedures and outcomes as part of the cost analysis process and add "boiler plate" language and imbedded notes to the pricing case template to prompt the analysts to complete, discuss, and document all price analysis activities. Regarding item e., Instruction 120 will direct analysts to use a standardized template for documenting and organizing the case file. We plan to have the updated instruction published by November 30, 2015.

Recommendation B.2.: Improve the Defense Contract Management Agency oversight of the cost analysis function by:

- a. Assessing the sufficiency of the cost analysis procedures performed,
 - b. Listing all applicable Federal Acquisition Regulation criteria in its guide for determining the adequacy of the cost analysis, and
 - c. Implementing a mechanism to address and correct agency-wide issues identified during internal reviews.
- a. Concur.** The contracting staff (GS-1102 series) within the Mission Review Team (MRT) reviewed pricing and negotiation activities at each Contracts Management Office (CMO) and the Cost and Pricing Center (CPC). The MRT reviewed work products and Cost and Pricing Analysis Reports (CPAR) to ensure all cost and/or price analysis elements requested by the customer were adequately addressed in the final pricing products provided to the customer/requester. During FY15, MRT technical personnel (GS-0800 or GS-1150 series) also began reviewing Technical Support to Negotiation (TSN) documents which encompassed evaluation of the sufficiency of the CMO technical

1

Director, Defense Contract Management Agency (cont'd)

D2015-DAPOCF-0032.000 DRAFT, "Follow up on the Actions to improve the Defense Contract Management Agency's Cost Analysis Function" September 1, 2015

specialists' analyses. In addition to MRs, CMO Contracts Directors (CD) and the Pricing Team Supervisors (PTS) conducted a separate review of working products, CPARs, and TSNs to ensure cost and/or pricing analysis procedures outlined in FAR Part 15.404 were performed as applicable and all requested information was provided to customers in a timely manner. Lastly, the DCMA-DM, Internal Review Team (IRT), conducted a special FY15 Audit of DCMA Price Negotiation Documents which mirrored the DoD IG effort. The IRT report found that in some instances pricing case file documentation was inadequate. The IRT report (Audit of DCMA Price Negotiation Documents) is provided (See Attachment 1). Going forward, the MRT will focus its P&N reviews on the sufficiency of cost and/or price analysis performed using the elements of FAR Part 15.404-1 criteria.

- b. Concur.** All FAR 15.404-1 criteria will be included in the MRTs guide/review workbooks. Additionally, FAR Part 15.404-1 sub-elements will also be included as part of the MRT guide/review workbooks and will be assessed during MRs. Non compliances/discrepancies will continue to be documented in MR Summary Reports and reported to Agency and CMO Senior Leadership.
- c. Concur:** The Agency Corrective Action Plan (CAP) Tracking Project is a response to the Agency Director's Initiative 2.2.1 which calls for the consolidation of strategic level internal and external review efforts for analysis, assessment, and recommendations to leadership for improvement. Construction of this project site began in January 2015 and was initially populated with MRT and DoD IG 2014 review results requiring corrective action. The site has been populated with CY15 review results and efforts to develop, assess, and document corrective actions in order to provide recommendations to leadership are underway. A Standard Operating Manual (SOM) for this project is in its final stages of review and publication is scheduled for late September 2015. A PowerPoint presentation illustrating our accomplishments and a flow diagram of the closed loop system execution is provided (See Attachment 2).

Recommendation C: We recommend that the Director, Defense Contract Management Agency:

1. Implement corrective actions to enable the reliable reporting of all significant activity performed by the Defense Contract Management Agency price/cost analyst.
2. Implement the Price & Negotiation eTool corrective actions items 1 through 8 identified on Defense Contract Management Agency's original Execution Plan (see Appendix B).

DCMA response: Concur. As you stated in the report, gaining an understanding of the evidentiary requirements necessary to support developing/modifying material solutions with a life cycle cost of \$1M or more slowed our progress toward correcting the pricing cases record keeping deficiencies we committed to correct. Since that time, we decided to sustain our existing pricing records capability (P&N eTool) by performing critical changes responsive to

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many of your findings, while we engage in a business process reengineering (BPR) effort considering the interdependencies of all pricing processes and existing material solutions. The sustainment fixes to P&N eTool were released to production on August 17, 2015. The fixes respond to the recommendations for improvement as follows.

RECOMMENDATION P&N eTool 1: Revise P&N eTool so that the services requested include the types of field pricing assistance identified in the FAR and provided by DCMA.

RESPONSE: Under "Services Requested" – Expanded the four selections by adding the "Type of Support" data field with more detailed selections under the four selections.

RECOMMENDATION P&N eTool 2: Input fields in the P&N eTool should be assessed for their importance, remove unnecessary fields and make the remaining fields mandatory for completion of the pricing case.

RESPONSE: All the existing P&N eTool data fields were retained but almost all of the data fields were made mandatory to ensure the comprehensive data collection.

RECOMMENDATION P&N eTool 3: P&N eTool reference material available to the users should be reviewed and updated where necessary to adequately define all P&N eTool input fields and report fields.

RESPONSE: The P&N eTool Users Guide was updated as part of the Hot-Fix

RECOMMENDATION P&N eTool 4: Reporting strategy in the P&N eTool should be assessed in order to determine how best to satisfy the different user's expectations.

RESPONSE: Enhanced the standard reports by adding more data field columns to the standard reports, to include the *Pricing Case Number*. The hot-fix expanded the Ad hoc reporting capability by having all the P&N eTool data fields available for creating a customized report.

RECOMMENDATION P&N eTool 5: Reports should be evaluated to determine and correct the inconsistencies between the P&N eTool and the reports and amongst the different reports.

RESPONSE: See response to P&N eTool 4.

RECOMMENDATION P&N eTool 6: DCMA instruction should be created to ensure that control procedures are implemented to address the data integrity of the P&N eTool. These control procedures should include but not limited the following:

- Data input to the system accurately reflects the underlying information;
- Provide reasonable assurance that erroneous data, errors and irregularities are detected, reported, and corrected;
- Enable users of the data to have a chance to bring attention to incorrect data or data that needs to be updated; and
- Consistently capture all pricing cases and data element

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RESPONSE: The "Contract/BOA Number" and the "RFP/RFQ Number" now require an entry using the DFARS PIIN format. The user must fill-in one of these two data fields. The expanded Ad hoc reporting capability permits users and managers to generate customized reports to review specific data fields for accuracy.

RECOMMENDATION P&N eTool 7: DCMA Internal Review should consider our findings in future reviews and make assessing data integrity of the P&N eTools a priority in their assessment.

RESPONSE: As stated in our response to recommendation B.1., we are planning to issue a policy revision by November 30, 2015. The policy revision will encompass recommendations noted in the draft report. When the policy is issued, the Mission Review Team will update their pricing case review checklist to conform to the policy. They will complete the update of their checklist by January 15, 2016.

RECOMMENDATION P&N eTool 8: DCMA should ensure that related policies and instructions are updated when implementing recommendations or changes resulting from our findings.

RESPONSE: A revision to DCMA-INST 120, *Pricing and Negotiation*, is in formal coordination addressing the concerns and findings identified. It is scheduled for release by November 30, 2015.

Our training on the eTool fixes cited in P&N eTool recommendations 1 through 6, with screen shots, is provided as attachment 3.

We intend to complete our processes BPR including an analysis of alternatives regarding material solutions by the end of calendar year 2016. In the meantime we will continue sustainment fixes of P&N eTool.

Attachments:

1. Audit of DCMA Price Negotiation Documents Report  Final Report - Audit of Negotiation Documents
2. Corrective Action Plan Tracking Project  Corrective Action Plan Tracking Project.

Attachment 1 omitted at management's request.

Attachment 2 omitted at management's request.

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ATTCH3.
PN_eTool_Brown-Bag

3. Brown Bag Training on eTool fixes

**Attachment 3
omitted at
management's
request.**

Acronyms and Abbreviations

DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DP	Defense Pricing
DPAP	Defense Procurement and Acquisition Policy
FAR	Federal Acquisition Regulation
P&N	Price & Negotiation
PGI	Procedures, Guidance, and Information

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