

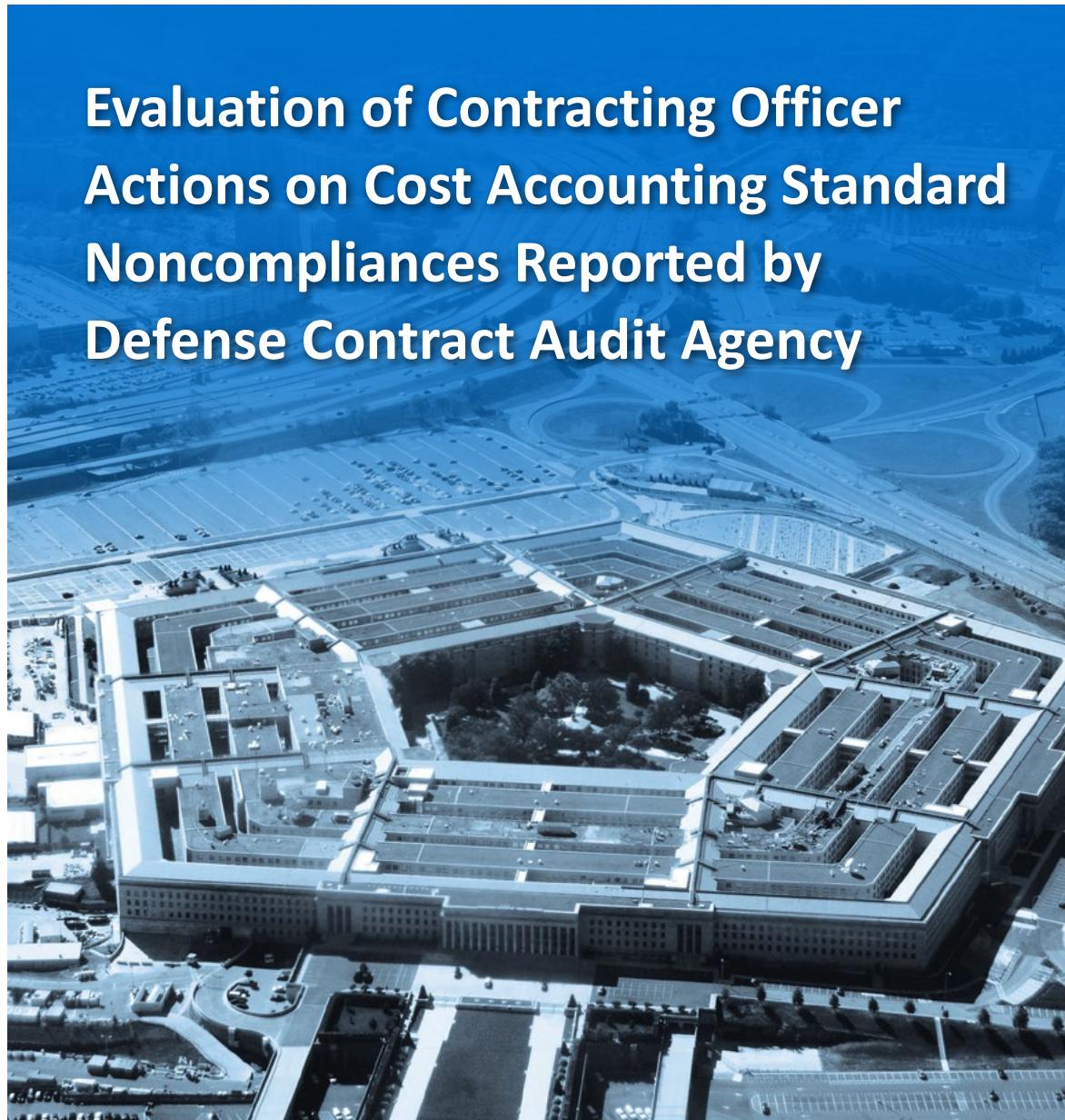


INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 8, 2016

Evaluation of Contracting Officer Actions on Cost Accounting Standard Noncompliances Reported by Defense Contract Audit Agency



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Results in Brief

Evaluation of Contracting Officer Actions on Cost Accounting Standard Noncompliances Reported by Defense Contract Audit Agency

December 8, 2017

Objective

We evaluated contracting officer actions on cost accounting standard (CAS) noncompliances reported by Defense Contract Audit Agency (DCAA). As part of our review, we selected 27 DCAA reports addressing noncompliances with CAS 403, "Allocation of Home Office Expenses to Segments," CAS 410, "Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives," and CAS 418, "Allocation of Direct and Indirect Cost." We determined whether the contracting officer actions taken in response to the 27 reports complied with Federal Acquisition Regulation (FAR) 30.6, "Cost Accounting Standards Administration," DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," and applicable agency instructions.

Findings

For the 27 DCAA CAS reports we selected, we identified several instances in which contracting officers did not comply with FAR, DoD Instruction 7640.02, or agency instructions. We found:

- 12 instances in which contracting officers did not issue a Notice of Potential Noncompliance within 15 days, as FAR 30.605(b)(1) requires;
- 16 instances when contracting officers failed to complete all actions on the reported noncompliances within 12 months, as DoD Instruction 7640.02 requires;
- 3 instances in which contracting officers did not have adequate documentation or rationale for determining that the DCAA-reported noncompliance was immaterial, contrary to FAR 30.602; and

Findings (cont'd)

- 8 instances in which contracting officers did not obtain a legal review of their CAS determination, as Defense Contract Management Agency (DCMA), Instruction 108 requires.

As a result, correction of the reported CAS noncompliances was delayed. In addition, contractors may have been inappropriately reimbursed contractors additional costs resulting from the noncompliance.

Also, in 15 of 27 instances, contracting officers did not accurately record the status of their actions in the DoD contract audit follow-up system, as DoD Instruction 7640.02 requires. The errors diminished the reliability of the contract audit follow-up system as a tool for monitoring contracting officer actions on CAS noncompliances.

Recommendations

We recommend that the Director, DCMA, and the Commander, Naval Sea Systems Command (NAVSEA), provide training on the requirements for processing CAS noncompliances in a timely manner.

We also recommend that the Director, DCMA:

- develop effective controls for helping to ensure that contracting officers adequately document their rationale when concluding that a noncompliance is immaterial, and
- remind contracting officers of the requirements for obtaining legal and management reviews of CAS determinations.

Management Comments and Our Response

The Director, DCMA and the Commander, NAVSEA, agreed with the reported recommendations. The comments and the planned corrective actions are responsive and no additional comments are required. DCMA and NAVSEA will provide training emphasizing the FAR 30.605 and DoD Instruction 7640.02 requirements. In addition, the Agencies will assess the instances of contracting officer noncompliance and take the appropriate corrective actions.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Contract Management Agency		A.1, B, C, and D.1
Commander, Naval Sea Systems Command		A.2 and D.2



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December 8, 2016

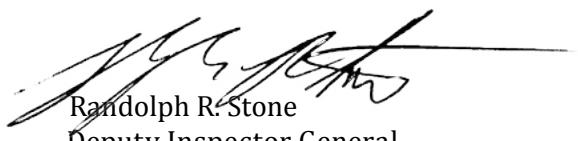
MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
COMMANDER, NAVAL SEA SYSTEMS COMMAND

SUBJECT: Report on Evaluation of Contracting Officer Actions on Cost Accounting Standard
Noncompliances Reported by Defense Contract Audit Agency
(Report No. DODIG-2017-032)

We are providing this report for information and use. We evaluated contracting officer actions on Cost Accounting Standards (CAS) noncompliances reported by the Defense Contract Audit Agency (DCAA). Our evaluation disclosed several instances of actions that were not consistent with Federal Acquisition Regulation 30.6, "Cost Accounting Standards Administration," DoD Instruction 7640.02, "Policy for Follow-Up on Contract Audit Reports," or agency policy. We conducted this evaluation in accordance with the "Quality Standards for Inspections and Evaluations," published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency.

We considered management comments on a draft of this report when preparing the final report. Comments from the Director, Defense Contract Management Agency, and the Commander, Naval Sea Systems Command, conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

[REDACTED]



Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Abbreviations and Acronyms



Introduction

Objective

We evaluated contracting officer actions on Cost Accounting Standard (CAS) noncompliances¹ reported by Defense Contract Audit Agency (DCAA) to determine if the actions complied with related requirements in the Federal Acquisition Regulation (FAR), DoD Instructions, and agency policy. We focused our evaluation on contracting officer actions taken to address DoD contractor noncompliances associated with the following three standards:

- CAS 403, “Allocation of Home Office Expenses to Segments” [48 Code of Federal Regulations (CFR) 9904.403]
- CAS 410, “Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives” (48 CFR 9904.410)
- CAS 418, “Allocation of Direct and Indirect Costs” (48 CFR 9904.418)

As part of the evaluation, we selected 27 DCAA audit reports issued between January 2014 and June 2015 that reported on CAS 403, CAS 410, or CAS 418 noncompliances. See Appendix A for a discussion of our scope and methodology.

Background

Cost Accounting Standards

Cost Accounting Standards are a set of 19 standards and rules promulgated by the United States Government for use in determining costs on negotiated procurements. The standards are designed to achieve uniformity and consistency with the cost accounting principles followed by DoD contractors and subcontractors.

Title 48 CFR 9901.306, “Standards applicability,” mandates the use of cost accounting standards by all executive agencies and by contractors and subcontractors in estimating, accumulating, and reporting costs on Government

¹ CAS noncompliances occur when the contractor fails to comply with applicable CAS in title 48 Code of Federal Regulations Part 9904, or fails to consistently follow disclosed or established cost accounting practices.

contracts. Title 48 CFR 9904 addresses the purpose and fundamental requirements if each standard. The three standards covered in this evaluation are described as follows:

CAS 403, Allocation of Home Office Expenses to Segments

CAS 403 establishes criteria for allocating a contractor's home office expenses to business segments.²

CAS 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives

CAS 410 provides criteria for the allocation of business unit general and administrative expenses to contracts (also referred to as "final cost objectives"). General and administrative expenses represent the cost of the management and administration of the business unit as a whole.

CAS 418, Allocation of Direct and Indirect Costs

CAS 418 provides for the: (1) consistent determination of direct and indirect costs, (2) accumulation of indirect costs, and (3) selection of appropriate measures for allocating indirect costs to contracts.

Defense Contract Audit Agency

DCAA performs contract audits for DoD and operates in accordance with DoD Directive 5105.36, "Defense Contract Audit Agency," January 4, 2010. DCAA performs several types of contract audits, including audits of DoD contractor compliance with the CAS.

DCAA performs CAS audits to determine if a DoD contractor's policies, procedures, and practices comply with the CAS requirements. When DCAA uncovers a CAS noncompliance during an audit, it issues a report to the contracting officer responsible for determining whether a noncompliance exists. If the contracting officer agrees with DCAA that a noncompliance exists and believes it is material, the contracting officer must direct the contractor to correct the noncompliant practice and submit an estimate of the cost impact on Government contracts.

² A segment is one of two or more divisions, product departments, plants, or other subdivisions of an organization reporting directly to a home office, and responsible for profit and producing a product or service.

Defense Contract Management Agency

DCMA is a component of the DoD that works directly with DoD contractors to ensure that DoD, Federal and allied government supplies and services are delivered on time, at projected cost, and meet performance requirements. In most instances, DCMA contracting officers are responsible for determining a contractor's compliance with CAS.

Of the 27 DCAA reports we selected for evaluation, DCMA contracting officers were responsible for taking action on 25 of the reports.

Naval Sea Systems Command and the Supervisor of Shipbuilding, Conversion and Repair

Naval Sea Systems Command (NAVSEA) is the largest of the Navy's five systems commands and the Navy's central activity for designing, engineering, integrating, building, and procuring ships and shipboard weapons and combat systems.

NAVSEA executes ship construction contracts at four Supervisor of Shipbuilding, Conversion and Repair (SUPSHIP) facilities located throughout the United States to ensure the highest quality ships are delivered to the fleet. SUPSHIPS are co-located with major shipbuilders and act as the Navy's on-site technical, contractual, and business authority. SUPSHIPS contract administration responsibilities include taking action on DCAA CAS noncompliance audit reports.

Of the 27 DCAA reports we selected for evaluation, SUPSHIP contracting officers located in Bath, Maine, and Pascagoula, Mississippi, were responsible for taking action on 2 of the reports.

Finding A

Contracting Officers Did Not Process CAS Noncompliances in a Timely Manner

In 12 of 27 cases, contracting officers did not issue a notice of potential noncompliance within 15 days as FAR 30.605(b)(1), “Processing Noncompliances,” requires. In 8 of 27 cases, contracting officers did not obtain the contractor’s response to the reported noncompliances within 60 days, or other mutually agreeable date, as FAR 30.605(b)(2)(ii) requires. In addition, in 16 of 27 cases, contracting officers did not complete the disposition of CAS noncompliances within 12 months, as DoD Instruction 7640.02, “Policy for Follow-Up on Contract Audit Reports,” requires. Also, the contracting officers did not document any reasons for failing to process noncompliances within the prescribed timeframes.

The contracting officers’ failure to take timely action delayed the correction of the noncompliances and the recovery of any increased cost due the Government. The consistent use of DCMA’s Audit Issue Tracking Tool may have prevented some of DCMA’s untimely actions.

FAR Requires the Timely Processing of CAS Noncompliances

FAR 30.605 includes the following requirements for ensuring that noncompliances are addressed in a timely manner:

- FAR 30.605(b)(1) requires the contracting officer, within 15 days of receiving a DCAA report, to notify DCAA that the contracting officer disagrees with the reported noncompliance, or issue a notice of potential noncompliance to the contractor if the contracting officer agrees with the reported noncompliance.
- FAR 30.605(b)(2)(ii) states that the contractor will be allowed 60 days or other mutually agreeable date to respond to a contracting officer’s notice of noncompliance.

In addition, DoD Instruction 7640.02, enclosure 3, paragraph 3.a, requires that the contracting officer:

- disposition audit reports within 12 months of the audit report date; and
- document actions the contracting officer took to achieve disposition at least monthly, if the audit report is not dispositioned within 12 months.

Contracting Officers Did Not Timely Issue Notices of Potential Noncompliances or Obtain Contractor Responses

In 12 of 27 cases, DCMA and NAVSEA contracting officers exceeded the 15-day timeframe established in FAR 30.605(b)(1) for issuing a notice of potential noncompliance to the contractor (see list in Appendix B). On average, the contracting officers took 111 days to issue the 12 notices of potential noncompliance. The contracting officers' files did not include justification for exceeding the 15 day timeframe.

In 8 of 27 cases, DCMA and NAVSEA contracting officers also exceeded the 60-day (or mutually agreeable) timeframe in FAR 30.605(b)(2)(ii) for obtaining contractor responses to the noncompliances. On average, contracting officers took 94 days to obtain the 8 contractor responses. In addition, once the contractor responses became overdue, the contracting officers' files did not indicate that the contracting officer had followed up with the contractor to obtain the responses.

Timely processing of noncompliances is important to ensure the contractor promptly corrects the noncompliant practice and the Government recoups any cost impact resulting from the noncompliance.

Delays in Dispositioning Reported Noncompliances

In 16 of 27 cases, contracting officers did not disposition the reported CAS noncompliance within the 12-month timeframe established in DoD Instruction 7640.02. On average, contracting officers took 19 months to disposition the 16 reported noncompliances (see Appendix B). In addition, contracting officers did not include an explanation for the delay in the contract file. Further, the contracting officers did not document the actions to achieve disposition of the 16 cases, as DoD Instruction 7640.02 enclosure 3, paragraph 3.a, requires.

As of June 30, 2016, contracting officers have not yet dispositioned 6 of the 16 cases. Of the six cases, five are assigned to DCMA contracting officers and one is assigned to a SUPSHIP contracting officer (who reports to NAVSEA). DCMA and NAVSEA need to assess these six cases and determine the additional actions that the contracting officers should take to appropriately disposition the reported noncompliances, or document at least monthly their actions to achieve disposition.

DCMA Contracting Officers are Not Always Using the Audit Issue Tracking Tool

Since June 1, 2012, DCMA has maintained an internal control referred to as the “Audit Issue Tracking Tool.” The Tool provides an automated method of tracking the status of CAS noncompliances to ensure contracting officers take all appropriate actions and recover any funds due to the Government. DCMA guidance requires the contracting officer to create a record in the Tool within 5 days of receiving the reported noncompliance. According to DCMA procedure, management is responsible for ensuring that contracting officers create and update the records in the Tool.

In 8 of the 25 DCMA cases we evaluated, contracting officers did not create a record in the Tool as DCMA guidance requires (see Appendix C). The Tool is important for ensuring that contracting officers take timely actions on reported CAS noncompliances. The consistent use of the Tool could have prevented some of the untimely actions we identified. DCMA management should implement controls to better enforce and monitor the use of the Tool.

Conclusion

Several contracting officers did not issue the notice of potential noncompliance or obtain the contractor’s response to the notice in a timely manner, as FAR 30.605 requires. In addition, several contracting officers exceeded the 12-month timeframe for dispositioning the reported noncompliances, as DoD Instruction 7640.02 requires. The contract files did not include justification for the actions not being completed in a timely manner. The consistent use of the Audit Issue Tracking Tool could have prevented some of the untimely actions. The failure to take timely actions in response to CAS noncompliance reports delayed correction of the reported noncompliances and the recovery of any potential increased costs due to the Government. For example, in response to Audit Report No. 41412012D19200002, the contracting officer took 23 months to issue her final determination and initiate recovery of a \$718,000 cost impact for the inappropriate allocation of contractor home office expenses.

For the six cases that have not been dispositioned, DCMA and NAVSEA management should request that the contracting officers promptly complete all appropriate actions. DCMA and NAVSEA should provide training to contracting officers on the FAR 30.605 and DoD Instruction 7640.02 timeframes for processing CAS noncompliances. Finally, contracting officers need to document rationale when they do not meet the required timeframes.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend the Director, Defense Contract Management Agency, to:

- a. **assess the five cases that have not been dispositioned and determine the additional actions contracting officers should take to complete their actions on the noncompliances.**

Director, Defense Contract Management Agency, Comments

The Director, DCMA, agreed and stated the DCMA Group Director is assessing the five cases to determine all actions the contracting officers should take to disposition the noncompliances. DCMA will complete the assessment by November 15, 2016.

Our Response

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

- b. **provide training to contracting officers on:**
 1. **Timely processing cost accounting standard noncompliances in accordance with Federal Acquisition Regulation 30.605 and DoD Instruction 7640.02.**
 2. **Documenting reasons for not meeting the timelines.**
 3. **Consistently using the Audit Issue Tracking Tool for monitoring cost accounting standard noncompliances.**

Director, Defense Contract Management Agency, Comments

The Director, DCMA, agreed and stated that DCMA plans to develop CAFU training for the Defense Acquisition University College of Contract Management in FY 2017. The intent of the training is to provide contracting personnel with real time access to the CAFU requirements, whether they are new to the requirements or they need to refresh their knowledge. The training content will emphasize meeting the timelines required by FAR 30.605 and DoD Instruction 7640.02. In the interim, DCMA will provide online training to contracting personnel by February 17, 2017.

Our Response

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

Recommendation A.2

We recommend that the Commander, Naval Sea Systems Command, through the Commander, Supervisor of Shipbuilding, Conversion and Repair Field Procurement Oversight:

- a. **Assess the one case that has not been dispositioned and determine the additional actions that should be taken on the noncompliance.**
- b. **Provide training to contracting officers on:**
 1. **Timely processing cost accounting standard noncompliances in accordance with Federal Acquisition Regulation 30.605 and DoD Instruction 7640.02.**
 2. **Documenting reasons for not meeting the timelines.**

Commander, Naval Sea Systems Command, Comments

The Commander, NAVSEA, agreed and made updates to the CAFU system. In addition, the Deputy Division Director, Field Competency, will provide training emphasizing the FAR 30.605 and DoD Instruction 7640.02 requirements. NAVSEA expects to provide the training by January 31, 2017.

Our Response

The comments from the Commander, NAVSEA, addressed all specifics of the recommendation and no additional comments are required. After we received NAVSEA's comments, the Commander informed us that the contracting officer will issue his final decision on the reported CAS noncompliance by December 19, 2016.

Finding B

Contracting Officers Did Not Adequately Document the CAS Materiality Determination

In 3 of 27 cases, DCMA contracting officers did not have adequate documentation or rationale to support their determination that a CAS noncompliance is immaterial, as FAR 30.602 requires. As a result, the contracting officers may have inappropriately reimbursed DoD contractors for increased costs associated with CAS noncompliances.

In addition, for all three cases, the contracting officers did not obtain required legal reviews or management approvals, which may have helped to ensure that their determinations were supported.

FAR Requires Adequate Documentation on the Materiality of CAS Noncompliances

The FAR includes the following requirements for adequately documenting the materiality of CAS noncompliances:

- FAR 30.602(b)(2), “Materiality,” requires that a CAS determination of materiality be based on adequate documentation. In addition, FAR 30.602(c)(2) requires the contracting officer to document the rationale for determining that a CAS noncompliance is immaterial.
- FAR 30.605(d)(4)(i) requires that the contractor submit a general dollar magnitude (GDM) proposal to the contracting officer that specifies the impact of the noncompliance by Executive agency.
- FAR 30.605(h)(1) requires the contractor to include all affected contracts in the assessment of materiality.

Contracting Officers Did Not Adequately Document Materiality Determinations

In 9 of 27 cases, DCMA contracting officers determined that the cost impact to the Government for CAS noncompliances reported by DCAA were immaterial. As discussed in the following paragraphs, in 3 of the 9 cases, contracting officers did not have adequate documentation or rationale for their conclusion that the CAS noncompliance was immaterial, as FAR 30.602 requires:

DCAA Audit Report Number 6211-2014C19200001

The DCAA audit report stated that the contractor's method for accumulating general and administrative costs did not comply with CAS 403, "Allocation of Home Office Expenses to Segments," from 2004 through 2008. The contractor agreed with the noncompliance and corrected the noncompliance for 2009 and forward. As the contracting officer requested, the contractor submitted an estimated impact of the noncompliance, which suggested that the overall impact to the Government was immaterial.

The contracting officer agreed with the contractor that the impact was immaterial. However, the contracting officer did not adequately document his rationale for the immateriality determination, as FAR 30.602(b)(2) and FAR 30.602(c)(2) require. For example, we found no evidence suggesting that the contracting officer had reviewed the contractor's estimated impact to ensure it was adequately supported. In addition, the contracting officer did not request the contractor to provide estimated cost impact by Executive agency as FAR 30.605(d)(4)(i) requires and as DCAA recommended. Also, the contracting officer seemed to lack an understanding of the potential estimated impact to the Government for the CAS 403 noncompliance based on the following statement he made in his determination:

Allocation differences among the various segments involve no net cost increase/decrease to the government since the same number of G&A (general and administrative) dollars are allocated among the... government contracts. (Clarification added)

The statement does not recognize that a change in the allocation of the same general and administrative costs could result in some Government contracts being charged with an inequitable share of those costs. Furthermore, as discussed in Finding C, the contracting officer did not obtain a legal review of his determination, as DCMA Instruction 108 requires.

DCAA Audit Report Number 2261-2014G19200001

The DCAA audit report stated that a contractor did not comply with CAS 410, “Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives,” based on its special allocation of general and administrative costs. The contracting officer agreed with the reported noncompliance and requested that the contractor submit a GDM estimate of the noncompliance’s impact on Government contracts. The contractor provided a GDM estimate suggesting that impact on Government contracts was immaterial.

As the contracting officer requested, DCAA reviewed the contractor’s GDM and identified several inadequacies, such as the lack of supporting documentation.

The contracting officer requested that the contractor provide supporting documentation to address the inadequacies identified by DCAA. However, without receiving the requested supporting documentation, the contracting officer issued her determination concluding that the noncompliance was immaterial. The contracting officer did not document a reason why she did not obtain the supporting documentation. In addition, the contracting officer did not have adequate documentation or rationale for determining the materiality of the noncompliance, as FAR 30.602 requires. The contracting officer relied on the contractor’s GDM without documenting how she verified the accuracy or completeness of it.

Furthermore, as discussed in Finding C, this case is one of six in which the contracting officer did not obtain a legal review of the determination, as DCMA Instruction 108 requires.

DCAA Audit Report No. 3221-2010I19200006

The DCAA audit report stated that a contractor did not comply with CAS 418 because the contractor did not charge General Procurement department costs to commercial contracts. As a result, DCAA estimated that \$34 million in General Procurement department costs should have been charged to commercial contracts rather than Government contracts. The contracting officer issued a notice of potential noncompliance to the contractor. The contractor disagreed with the DCAA estimate and claimed that the General Procurement department’s benefit to Government contracts far exceeds the benefit to commercial contracts. However, the contractor refused to provide the Government with access to commercial contract information needed to verify the contractor’s claim. Without fully verifying the contractor’s claim, the contracting officer agreed with the contractor and concluded that the impact of the noncompliance on Government contracts was immaterial.

Rather than obtain adequate documentation to support the contractor's claim, the contracting officer accepted a contractor representative's written certification that the benefit to the Government exceeded the impact of the noncompliance. The contracting officer relied on the certification to conclude that the noncompliance was immaterial.

We identified three instances in which the contracting officer did not adequately document her actions on the noncompliance. First, the contracting officer's actions did not comply with FAR 30.602, which requires that the contracting officer obtain adequate documentation and rationale to support the materiality determination. Without verifying the contractor's claim, the contracting officer failed to establish a factual basis to support her conclusion that the impact of the noncompliance was immaterial. Similarly, the contracting officer did not comply with FAR 1.704, which requires the contracting officer to set forth enough facts and circumstances to clearly and convincingly justify the specific determination made and cite the appropriate regulations upon which the determination is based.³ The contractor's written certification was insufficient justification to support the contracting officer's determination. As a result, the contracting officer may have inappropriately allowed the contractor to charge a significant amount of General Procurement department costs to Government contracts that should have been charged to commercial contracts.

Second, the contracting officer stated that the contractor had changed its noncompliant practice in January 2014. However, we found no evidence in the contract file to support the contracting officer's conclusion that the contractor had actually corrected the noncompliance.

Third, the contracting officer failed to document in her determination letter to the contractor that the Government reserves the right to make appropriate contract adjustments should the noncompliance become material in the future, as FAR 30.605(b)(4)(i)(B) requires.

Furthermore, as discussed in Finding C, this case is one of six in which contracting officer did not obtain a legal review, and one of two cases in which the contracting officer did not obtain appropriate management approval, as DCMA Instructions require.

³ FAR 30.601 requires the assigned contracting officer to "make all CAS-related determinations and findings (see Subpart 1.7) for all CAS-covered contracts and subcontracts."

Conclusion

In 3 cases, DCMA contracting officers did not adequately document the basis for concluding that the CAS noncompliance was immaterial, as FAR 30.602 requires.

For all three cases, the contracting officers did not obtain required legal reviews or management approvals (see Finding C). A legal review or management approval of the three cases may have helped to ensure the contracting officer adequately documented the materiality determination.

DCMA should develop controls which provide reasonable assurance that contracting officers have adequate documentation and document the rationale when they believe the impact of a noncompliance is immaterial.

Recommendations, Management Comments, and Our Response

Recommendation

We recommend that the Director, Defense Contract Management Agency, develop effective controls for helping to ensure that contracting officers adequately document materiality determinations and include rationale when they conclude that a cost accounting standard noncompliance is immaterial.

Director, Defense Contract Management Agency, Comments

The Director, DCMA agreed and stated that the interim training addressed in response to Recommendation A-1b will emphasize the requirement for adequately supporting immateriality determinations in accordance with FAR 30.602 and DCMA Instruction 108.

Our Response

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

Finding C

DCMA Contracting Officers Did Not Obtain Legal Review or Management Approval

In 8 of 25 cases, DCMA contracting officers did not obtain legal review before issuing a CAS determination, as DoD Instruction 7640.02 and DCMA instructions require.

In 2 of 25 cases, DCMA contracting officers did not obtain appropriate management approval before issuing a CAS determination, as DCMA instructions require.

The DCMA contracting officers did not obtain legal review or management approval because they thought that such review and approval were not required.

Without legal review and management approval, contracting officers are bypassing key controls established by DoD and DCMA to help ensure that CAS determinations comply with applicable regulations and DoD instructions.

DoD and DCMA Instructions Require a Legal Review of CAS Determinations

DoD Instruction 7640.02 and DCMA instructions include the following requirements:

- DoD Instruction 7640.02, enclosure 3, paragraph (3)(b)(1), requires contracting officers to consult with legal counsel when they disagree with audit report findings, and to document the consultation in the contract file.
- DCMA Instruction 108, paragraphs 1.1.8, 2.5.1 and 3.5.4.4, requires that contracting officers obtain a legal review of CAS noncompliance determinations, regardless of whether they agree or disagree with the reported audit findings.

Contracting Officers Did Not Obtain a Legal Review of CAS Determinations

In 8 of 25 cases, DCMA contracting officers did not seek a legal review of CAS determinations (see Appendix E). Therefore, the contracting officers did not comply with DoD Instruction 7640.02 or DCMA Instructions 108.

In all 8 cases, the contracting officers did not believe they were required to obtain legal approval of the CAS determinations.

DCMA Instructions Require Management Approval of CAS Determinations

Three DCMA instructions address the management approval of CAS determinations.

- To help ensure contracting officers adequately support CAS determinations, DCMA Instructions 108 and 126 require that contracting officers obtain approval of CAS determinations from a DCMA field office Contracts Director. DCMA Instruction 126 also states that approval of CAS determinations cannot be delegated below the Contracts Director level at DCMA Contract Management Offices.
- DCMA Instruction 134 requires that the contracting officer obtain approval from the DCMA Headquarters Board of Review if the estimated cost impact associated with the noncompliance equals \$25 million or more.

Contracting Officers Did Not Obtain Management Approval of CAS Determinations

In 2 of 25 cases, contracting officers did not obtain the required DCMA management-level approval before issuing CAS determinations (see Appendix E). The contracting officer's actions did not comply with DCMA Instructions 108, 126, or 134.

For 1 of 2 cases, the contracting officer acknowledged that he did not obtain management approval for his CAS determination.

For the remaining case, the contracting officer did not obtain approval from the Contracts Director and DCMA Headquarters' Board of Review. Both approvals were required because the estimated impact of the reported noncompliance exceeded \$25 million. DCAA estimated the noncompliance at \$34 million.

DCMA Memorandum is Inconsistent with DCMA Instructions for Obtaining Management Approval

DCMA memorandum, "Supervisory and Peer Review Process for Contracting Officers Actions," April 12, 2012, allows approval of contracting officer actions to be delegated to DCMA Team Supervisors. The memorandum is inconsistent with DCMA Instruction 126 which states that the Contracts Director approval requirement cannot be delegated.

DCMA should review the appropriateness of the delegation allowed by the memorandum and take any necessary steps to eliminate the inconsistency.

NAVSEA Management Actions

During our evaluation, we communicated our findings to the Commander, NAVSEA Supervisor of Shipbuilding, Conversion and Repair Field Procurement Oversight. We also noted that NAVSEA did not have a policy requiring the legal review of CAS determinations. In response, NAVSEA incorporated procedures that require the documented legal review of CAS determinations.

If effectively implemented, NAVSEA's legal review requirement will help to ensure that CAS determinations are consistent with the FAR and DoD instructions.

Conclusion

In eight cases, DCMA contracting officers did not obtain the required legal review. In two cases, DCMA contracting officers did not obtain the required management approval.

In three of the cases, the contracting officers' failure to obtain legal review or management approval may have contributed to the unsupported CAS determinations addressed in Finding B. Legal and management approvals are important controls for establishing that CAS determinations are adequately supported, based on a sound interpretation of CAS requirements, and comply with DoD instructions.

DCMA should remind contracting officers that they must obtain a legal review and management approval in accordance with DoD and DCMA instructions. In addition, DCMA should review the delegation allowed by the April 12, 2012, memorandum and take any necessary actions to eliminate the inconsistency with DCMA Instruction 126.

Recommendations, Management Comments, and Our Response

Recommendation C.1

We recommend that the Director, Defense Contract Management Agency:

Remind contracting officers that they must obtain a legal review and management approval in accordance with DoD Instruction 7640.02 and Defense Contract Management Agency Instructions 108, 126, and 134.

Director, Defense Contract Management Agency, Comments

The Director, DCMA agreed and stated that training will be provided by February 17, 2017. The training will emphasize the requirements for obtaining management approval and legal counsel review of documentation supporting the determinations before issuance.

Our Response

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

Recommendation C.2

Review the appropriateness of the delegation allowed by the April 12, 2012, memorandum and take any necessary actions to eliminate the inconsistency with Defense Contract Management Agency Instruction 126.

Director, Defense Contract Management Agency, Comments

The Director, DCMA, agreed. DCMA reviewed the April 12, 2012, memorandum and found no inconsistency between it and DCMA Instruction 126.

Our Response

Comments from the Director, DCMA, addressed all specifics of the recommendation and no additional comments are required. After we received DCMA's comments, DCMA recognized that instruction 108 is inconsistent with the April 12, 2012, memorandum and DCMA Instruction 126. Accordingly, DCMA management stated that it will revise DCMA instruction 108 to eliminate the inconsistency.

Finding D

Contracting Officers Did Not Maintain Accurate CAFU Data

In 15 of 27 cases, contracting officers did not record accurate status information, resolution dates, or disposition dates in the CAFU system, as DoD Instruction 7640.02 requires. The inaccuracies diminished the reliability of the CAFU System as a tool for monitoring contracting officer actions on CAS noncompliances. CAFU System accuracy is also important because the CAFU System serves as the source for contract audit follow-up information furnished to Congress in the DoD Office of Inspector General Semiannual Report to Congress.

In response to Report Number DoDIG-2016-091, “Evaluation of the Accuracy of Data in the DoD Contract Audit Follow-Up System,” May 13, 2016, DCMA provided training to contracting officers in 2016 on the requirements for maintaining accurate CAFU System data. As a result, we have no additional recommendations for DCMA at this time.

NAVSEA should also provide training to SUPSHIP contracting officers on the requirements for maintaining accurate CAFU System records.

Contracting Officers Entered Inaccurate Information in the CAFU System

DoD Instruction 7640.02, enclosure 3, requires contracting officers to ensure the accuracy of all data in the CAFU System. It also requires that contracting officers promptly update the status of contract audit reports within CAFU.

In 15 of 27 cases we evaluated, we found 1 or more CAFU System data errors. We found a total of 20 errors within the 15 cases, which affected the “Resolution Date,” “Disposition Date,” and “Status” CAFU System data fields (see Appendix E).

- In nine instances, the Resolution Date data field in the CAFU System was inaccurate. For seven of the nine instances, DCMA contracting officers entered a date that was not consistent with the notice of potential noncompliance date. In the remaining two instances, NAVSEA contracting officers did not enter a resolution date even though they had issued a notice of potential noncompliance. According to DoD Instruction 7640.02, Glossary, resolution of a CAS noncompliance is achieved when the contracting officer issues a Notice of Potential Noncompliance to the contractor.

- In six instances, the Disposition Date data field in CAFU was inaccurate. In four of the six instances, contracting officers entered incorrect disposition dates in CAFU that did not reflect the dates of the final determination. In the remaining two instances, DCMA contracting officers did not enter a disposition date despite issuing the final determination. According to DoD Instruction 7640.02, Glossary, disposition of a CAS noncompliance is achieved when the contracting officer issues a final determination.
- In five instances, contracting officers failed to update the Status data field in CAFU as resolved or dispositioned even though they had actually resolved or dispositioned the noncompliance. Of the five instances, four apply to DCMA contracting officers and one applies to a SUPSHIP contracting officer.

Conclusion

In 15 of 27 cases, contracting officers did not maintain accurate CAFU System records on the actions taken to address reported CAS noncompliances. Data errors diminish management's ability to use CAFU as a tool for monitoring contracting officer actions on reported noncompliances.

DCMA and NAVSEA should correct the CAFU data inaccuracies. In response to Report No. DoDIG-2016-091, "Evaluation of the Accuracy of Data in the DoD Contract Audit Follow-Up System," May 13, 2016, DCMA provided training in 2016 to contracting officers on the requirements for maintaining accurate CAFU information. NAVSEA should also provide training to SUPSHIP contracting officers on maintaining accurate CAFU information.

Recommendations, Management Comments, and Our Response

Recommendation D.1

We recommend that the Director, Defense Contract Management Agency request that the contracting officers correct the 17 Contract Audit Follow-Up System errors.

Director, Defense Contract Management Agency Comments

The Director, DCMA, agreed and indicated that the 17 errors involve 13 CAFU records. DCMA stated that 11 of the 13 CAFU system records would be corrected by November 30, 2016. DCMA stated the remaining two CAFU records no longer require correction because they have since been closed.

Our Response

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

Recommendation D.2

We recommend that the Commander, Naval Sea System Command, through the Supervisor of Shipbuilding, Conversion and Repair Field Procurement Oversight:

- a. Request that contracting officers correct the three Contract Audit Follow-up System errors.
- b. Provide training to Supervisor of Shipbuilding, Conversion and Repair contracting officers on the requirements for maintaining accurate Contract Audit Follow-Up records.

Commander, Naval Sea System Command Comments

The Commander, NAVSEA, agreed and stated that, by January 31, 2017, the Deputy Division Director, Field Competency, will: (1) require the contracting officers to correct the three errors in the CAFU System, and (2) hold CAFU System training.

Our Response

Comments from the Commander, NAVSEA, addressed all specifics of the recommendation and no additional comments are required.

Appendix A

Scope and Methodology

We conducted this evaluation from December 2015 through July 2016 in accordance with the “Quality Standards for Inspections and Evaluations,” published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency. As part of the evaluation, we judgmentally selected 27 of 50 CAS 403, CAS 410, and CAS 418 noncompliances DCAA issued between January 2014 and June 2015. To accomplish our objective, we:

- gained an understanding of the 27 reported noncompliances;
- interviewed employees from DCAA, DCMA, NAVSEA, and SUPSHIP involved in reporting or taking action on the reported noncompliances;
- analyzed relevant DCAA, DCMA, and SUPSHIP documents; and
- evaluated the DCMA and SUPSHIP contracting officer actions for compliance with FAR 30.6, DoD Instruction 7640.02, and applicable agency instructions.

Use of Computer-Processed Data

In selecting DCAA audit reports, we relied on a computerized listing of DCAA audit reports issued between January 2014 and June 2015. DCAA generated the listing from its management information system. We tested the accuracy of the listing by tracing the 27 selected reports to source documents. However, we did not test the listing for completeness.

Prior Coverage

During the last 5 years, the DoD OIG has issued two reports involving (1) actions that DCMA contracting officers took on CAS noncompliances reported by DCAA, or (2) the accuracy of CAFU System records. The unrestricted DoD OIG reports can be accessed over the Internet <http://www.dodig.mil> and are shown below.

DoD OIG

Report No. DODIG-2016-091, "Evaluation of the Accuracy of Data in the DoD Contract Audit Follow-Up System," May 13, 2016

We tested 50 CAFU audit records and found that 41 of the records had errors in one or more data fields. For example, we found 10 errors associated with the "Questioned Cost" data field because the amounts in the field did not comply with DoD Instruction 7640.02, "Policy for Follow-Up on Contract Audit Reports," April 15, 2015, which establishes record-keeping and reporting requirements for reportable contract audits.

Report No. DODIG-2014-077, "Hotline Complaint Regarding the Settlement of the Pratt & Whitney Commercial Engine Cost Accounting Standards Case," May 30, 2014

We substantiated a DoD Hotline alleging in part that DCMA did not establish a settlement position on a CAS noncompliance that was consistent with the FAR. Additionally, we determined that current problems with the DCMA administration the noncompliance may be resulting in increased costs on DoD contracts.

Appendix B

Time Taken to Process Reported Noncompliances

DCAA Audit Report Number	Audit Report Receipt Date	Number of Days Between Receipt and Notice of Noncompliance Date ²	Number of Days between the Notice and the Contractor's Response ³	Number of Months between Audit Report and Disposition ⁴
DCMA				
1 41412012D19200002	5/23/2014	112	18	23
2 62112014C19200001	4/1/2014	1	65	23
3 31212014H19200003	4/15/2015	153	1	5
4 41412014D19200001	2/10/2015	30	60	12
5 33212014K19200001 ¹	12/18/2014	12	1	19
6 12912014F19200001	10/29/2014	1	54	8
7 67112013I19200001	4/10/2014	10	2	9
8 32012013E19200001	7/25/2014	53	49	10
9 22612014G19200001	4/10/2014	82	1	12
10 68512014M19200001	3/13/2014	25	115	16
11 31512013U19200003	2/27/2015	10	22	7
12 37012014B19200003	8/8/2014	33	65	15
13 37012015B19200001	12/16/2014	192	76	14
14 26412012B19200003 ¹	8/29/2014	14	1	22
15 12912014F19200002	10/29/2014	7	56	11
16 16212015A19200001	12/15/2014	4	68	12
17 27012014R19200004	8/21/2014	411	58	20
18 28212014U19200001	6/5/2015	5	51	7
19 31212014H19200002 ¹	4/17/2014	11	99	27
20 32212010I19200006	4/1/2014	7	1	17
21 45312014K19200001 ¹	9/30/2014	2	60	21
22 12112014C19200001	8/15/2014	6	19	12
23 26512014A19200001	4/17/2014	4	102	21
24 31612014F19200001	3/10/2015	87	59	15
25 31212013K19200002 ¹	2/20/2015	49	60	17

DCAA Audit Report Number	Audit Report Receipt Date	Number of Days Between Receipt and Notice of Noncompliance Date ²	Number of Days between the Notice and the Contractor's Response ³	Number of Months between Audit Report and Disposition ⁴
SUPSHIP				
26 17512014G19200001 ¹	5/11/2015	100	40	14
27 23612014Y19200001	9/24/2014	8	165	17
Cases Exceeding the Required Timelines		12	8	16
Ratio of Cases Exceeding the Required Timelines		44%	30%	59%
Average Days / Months for Cases Exceeding the Required Timelines		111	94	19

¹ As of June 30, 2016, the contracting officer has not yet dispositioned these audits reports.

² FAR 30.605(b)(1) requires the issuance of the Notice of Potential Noncompliance within 15 days of receiving the audit report.

³ FAR 30.605(b)(2)(ii) requires the contracting officer to obtain the contractor's response within 60 days of the Notice of Potential Noncompliance, or other mutually agreeable date.

⁴ DoD Instruction 7640.02 requires the contracting officer to disposition the reported noncompliance within 12 months of the DCAA audit report.

Appendix C

Contracting Officer Use of the DCMA Audit Issue Tracking Tool

DCAA Report Number	DCAA Report Date	Cost Accounting Standard	Tracking Tool Used
DCMA			
1 41412012D19200002	5/23/2014	403	Yes
2 62112014C19200001	4/1/2014	403	No
3 31212014H19200003	4/15/2015	403	No
4 41412014D19200001	2/10/2015	403	Yes
5 33212014K19200001	12/18/2014	403	No
6 12912014F19200001	10/29/2014	403	Yes
7 67112013I19200001	4/10/2014	403	No
8 32012013E19200001	7/25/2014	403	Yes
9 22612014G19200001	4/10/2014	410	Yes
10 68512014M19200001	3/13/2014	410	No
11 31512013U19200003	8/8/2014	410	Yes
12 37012014B19200003	8/29/2014	410	Yes
13 37012015B19200001	10/29/2014	410	Yes
14 26412012B19200003	12/15/2014	410	Yes
15 12912014F19200002	8/21/2014	418	Yes
16 16212015A19200001	6/5/2015	418	No
17 27012014R19200004	4/17/2014	418	Yes
18 28212014U19200001	4/1/2014	418	Yes
19 31212014H19200002	9/30/2014	418	Yes
20 32212010I19200006	8/15/2014	418	Yes
21 45312014K19200001	4/17/2014	418	Yes
22 12112014C19200001	3/10/2015	418	No
23 26512014A19200001	2/20/2015	418	Yes
24 31612014F19200001	5/11/2015	418	No
25 31212013K19200002	9/24/2014	418	Yes
Total Errors			8
Error Rate			32%

Appendix D

Legal Review and Management Approval of CAS Determinations

DCAA Audit Report Number		Legal Review	Management Approval
DCMA			
1	41412012D19200002	No	Yes
2	62112014C19200001	No	Yes
3	31212014H19200003	Yes	Yes
4	41412014D19200001	Yes	Yes
5	33212014K19200001	Pending Determination	Pending Determination
6	12912014F19200001	Yes	Yes
7	67112013I19200001	No	Yes
8	32012013E19200001	Yes	Yes
9	22612014G19200001	No	Yes
10	68512014M19200001	Yes	Yes
11	31512013U19200003	Yes	Yes
12	37012014B19200003	No	Yes
13	37012015B19200001	Yes	Yes
14	26412012B19200003	Pending Determination	Pending Determination
15	12912014F19200002	Yes	Yes
16	16212015A19200001	No	Yes
17	27012014R19200004	Yes	No
18	28212014U19200001	Yes	Yes
19	31212014H19200002	Pending Determination	Pending Determination
20	32212010I19200006	Yes	No
21	45312014K19200001	Pending Determination	Pending Determination
22	12112014C19200001	No	Yes
23	26512014A19200001	Yes	Yes
24	31612014F19200001	No	Yes
25	31212013K19200002	Pending Determination	Pending Determination

DCAA Audit Report Number	Legal Review	Management Approval
SUPSHIP		
26 17512014G19200001	Pending Determination	Pending Determination
27 23612014Y19200001	Yes	Yes
Total Errors	8	2
Error Rate	30%	7%

Appendix E

Contract Audit Follow-Up System Data Accuracy

DCAA Audit Report Number		Resolution Date Accurate	Disposition Date Accurate	Status Accurate
DCMA				
1	41412012D19200002	No	No	Yes
2	62112014C19200001	Yes	Yes	Yes
3	31212014H19200003	No	Yes	Yes
4	41412014D19200001	Yes	Yes	Yes
5	33212014K19200001	Yes	Pending Determination	Yes
6	12912014F19200001	Yes	Yes	Yes
7	67112013I19200001	Yes	Yes	Yes
8	32012013E19200001	Yes	Yes	Yes
9	22612014G19200001	Yes	Yes	Yes
10	68512014M19200001	Yes	No	No
11	31512013U19200003	Yes	Yes	Yes
12	37012014B19200003	No	No	Yes
13	37012015B19200001	Yes	No	Yes
14	26412012B19200003	No	Pending Determination	Yes
15	12912014F19200002	Yes	Yes	Yes
16	16212015A19200001	Yes	No	Yes
17	27012014R19200004	No	Yes	Yes
18	28212014U19200001	Yes	Yes	Yes
19	31212014H19200002	Yes	Pending Determination	No
20	32212010I19200006	No	Yes	Yes
21	45312014K19200001	Yes	Pending Determination	No
22	12112014C19200001	No	Yes	Yes
23	26512014A19200001	Yes	No	No
24	31612014F19200001	Yes	Yes	Yes
25	31212013K19200002	Yes	Pending Determination	Yes

DCAA Audit Report Number	Resolution Date Accurate	Disposition Date Accurate	Status Accurate
SUPSHIP			
26 17512014G19200001	No	Pending Determination	Yes
27 23612014Y19200001	No	Yes	No
Total Errors	9	6	5
Error Rate	33%	22%	19%

Management Comments

Defense Contract Management Agency



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

OCT 27 2016

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

SUBJECT: Draft DoDIG Report, "Evaluation of Contracting Officer Actions on Cost
Accounting Standard Noncompliances Reported by Defense Contract Audit Agency
(Project No. D2016-DAPOCF-0018.000)," September 27, 2016

The attached is in response to subject DoDIG draft report that addresses the DCMA
actions to implement recommendations stated in the report.

[REDACTED]
[REDACTED]

Wendy M. Masiello
Wendy M. Masiello, Lt Gen, USAF
Director

Attachment(s):
As stated

Defense Contract Management Agency (cont'd)

OIG Draft Report - Project No. D2016-DAPOCF-0018.000, "Evaluation of the Contracting Officer Actions on Cost Accounting Standard Noncompliances Reported by Defense Contract Audit Agency," September 27, 2016

Report, page 12, Recommendation A.1: We recommend the Director, Defense Contract Management Agency to:

- a. assess the five cases that have not been dispositioned and determine the additional actions contracting officers should take to complete their actions on the noncompliances;

We concur with recommendation A.1.a. The CACO/DACO Group Director, responsible for the actions is currently assessing the five cases that have not been dispositioned and determining the additional actions the contracting officers should take to complete their actions on the noncompliances. The assessment of all 5 cases will be completed by November 15, 2016.

- b. provide training to contracting officers on:

1. the timely processing cost accounting standard noncompliance in accordance with Federal Acquisition Regulation 30.605 and DoD Instruction 7640.02;
2. consistently using the Audit Issue Tracking Tool for monitoring cost accounting standard noncompliances;
3. documenting reasons for not meeting the timelines.

We concur with recommendation A.1.b. We are developing a Contract Audit Follow Up (CAFU) training product for the Defense Acquisition University (DAU) College of Contract Management. The content of the training materials places strong emphasis on meeting the timelines directed in FAR 30.605 and DoDI 7640.02 and providing documentation that is clear and concise. Our intent is to deliver a product which will allow contracting personnel real time access to knowledge of CAFU requirements whether they are new to the requirements or need to refresh their knowledge. We are unable to predict an exact product release date at this time; however, we are expecting release of the course in CY 2017.

In the interim, we are preparing a training presentation which specifically addresses the issues contained in this DoDIG report. We intend to offer several training sessions online through eConnect and place the training presentation on our resource page for DCMA INST 126 and 108. Completion date estimated: February 17, 2017.

Report, page 17, Recommendation B: We recommend the Director, Defense Contract Management Agency develop effective controls for helping to ensure contracting officers

Defense Contract Management Agency (cont'd)

OIG Draft Report - Project No. D2016-DAPOCF-0018.000, "Evaluation of the Contracting Officer Actions on Cost Accounting Standard Noncompliances Reported by Defense Contract Audit Agency," September 27, 2016

adequately document materiality determinations and include rationale when they conclude that a Cost Accounting Standard noncompliance is immaterial.

We concur with recommendation B. DCMA Instruction 108, Cost Accounting Standards, requires ACOs to make materiality determinations in accordance with FAR 30.602, using the criteria in 48 CFR 9903. In the case of an immateriality determination, the CMO Contracts Director or CACO/DACO Group Director shall;

"review the immateriality determination to ensure the determination is adequately supported and documented prior to issuing the determination."

The interim training addressed in response to recommendation A.1.b will emphasize this requirement. Completion date estimated: February 17, 2017.

Report, page 20, Recommendation C: We recommend the Director, Defense Contract Management Agency:

1. Remind contracting officers that they must obtain legal review and management approval in accordance with DoD Instruction 7640.02 and DCMA Instructions 108, 126, and 134.

We concur with recommendation C.1. The training to be provided by February 17, 2017, will include emphasis on the requirement for proper management approvals and the requirement for contracting officers to obtain legal counsel review of the draft noncompliance determination and supporting documentation prior to issuance. Completion date estimated: February 17, 2017.

2. Review the appropriateness of the delegation allowed by the April 12, 2012, memorandum and take any necessary action to eliminate the inconsistency with DCMA Instruction 126.

We concur with recommendation C.2. We have reviewed the appropriateness of the delegation of management review authority allowed by an April 12, 2012 memorandum issued by the Director, CACO/DACO Group and we do not see an inconsistency with DCMA Instruction 126, Contract Audit Follow Up.

The April 12, 2012 memorandum states:

"All PNOMs and PNMs should be reviewed/approved by the Team Supervisors. For actions that are subject to HQ Board of Review, The Director of the CACO/DACO Group will be the final PNM approval authority. For all other actions not subject to a HQ BoR, the Director of the CACO/DACO Group has delegated these actions to the GS-1102-15 Team Supervisors."

Defense Contract Management Agency (cont'd)

OIG Draft Report - Project No. D2016-DAPOCF-0018.000, "Evaluation of the Contracting Officer Actions on Cost Accounting Standard Noncompliances Reported by Defense Contract Audit Agency," September 27, 2016

The DCMA 126 policy states:

"Review ACO actions, decisions, letters, and memorandums as determined appropriate. (NOTE: Authority to review ACO actions may be delegated to a level no lower than the supervisor. CMO management review authority cannot be delegated below Contracts Director for Cost Accounting Standard (CAS) related issues.)"

DCMA Instruction 126, paragraphs 3.6.7.2.1, 3.9.9 and 3.9.10 include guidance regarding the level for approval. The delegation for approval cannot be delegated below the (CMO) Contracts Director level or the (CACO/DACO) Team KD Supervisor.

We believe the analyst interpreted the memo as permission for a less qualified individual to review CAS noncompliance actions. Within DCMA, the term "Contracts Director" specifically refers to contract management offices Contracts Directors, and the term "Team KD Supervisor" specifically refers to the GS-1102-15 Supervisor within the CACO/DACO Group, at the Contractor/or business unit level. We have included an organization chart denoting Team KD Supervisors as attachment 1. Both of these Contracting Officials are equivalent supervisors for their work units and equally competent to review and approve.

Report, page 23, Recommendation D.1: We recommend the Director, Defense Contract Management Agency and Director of Naval Sea Systems Command require that contracting officers correct the 17 Contract Audit Follow-up System errors.:

We concur with recommendation D.1. The report recommendation identifies 17 Contract Audit Follow Up (CAFU) errors in 3 different categories (Resolution date, Disposition date and Pipeline Position status). The CAFU etool system consists of records for each Defense Contract Audit Agency (DCAA) audit report issued. The 17 errors cited in the report impact 13 CAFU etool records. The 13 records may contain one, two or all three types of errors identified.

Eleven of the 13 etool records contain errors involving either the Resolution and/or Disposition dates. Actions will be taken to correct the dates on those 11 CAFU etool records. Five of the 13 records contain an error involving the pipeline status. The pipeline position within the CAFU etool moves from one status to another based on the completion of the Actual Resolution or Actual Disposition Dates. Three of the 5 records impacted will be corrected when the corrections for the dates for Resolution or Disposition are completed. The two remaining CAFU records where a pipeline error was identified are now closed and the final pipeline position reflected in the records is "Forwarded." There is no requirement to make further corrections, since this is the correct final status for a record. Completion date estimated: November 30, 2016

Defense Contract Management Agency (cont'd)

Corporate and Divisional ACO Group – Rev 119, May 5, 2016	
AQKDA [REDACTED] GS-1102-15 Lockheed Martin	AQKDB [REDACTED] GS-1102-15 General Dynamics
AQKDF [REDACTED] GS-1102-15 Northrop Grumman	AQKDC [REDACTED] GS-1102-15 L3-Communications
AQKDK [REDACTED] GS-1102-15 Exelis and Others	AQKDD [REDACTED] GS-1102-15 Raytheon
AQKDP [REDACTED] GS-1102-15 CAP	AQKDH [REDACTED] GS-1102-15 Aircraft Engines Team
AQKDJ [REDACTED] GS-1102-15 Boeing	AQKDJ [REDACTED] GS-1102-15 ULA and Others
AQKDK [REDACTED] GS-1102-15 Textron & Others	AQKDQ [REDACTED] GS-1102-15 SAIC and Others
AQKDP [REDACTED] GS-1102-15 CSC and Others	AQKDN [REDACTED] GS-1102-15 URS and Others
AQKDR [REDACTED] GS-1102-15 CAS/DST EOB 5/29	AQKDO [REDACTED] GS-1510-14 ClPR Center

1

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10/7/2016

Naval Sea System Command



DEPARTMENT OF THE NAVY
NAVAL SEA SYSTEMS COMMAND
1333 ISAAC HULL AVENUE, S.E.
WASHINGTON NAVY YARD, DC 20376-0001

In Reply to
7500
Ser 00N/366
12 Oct 16

From: Commander, Naval Sea Systems Command
To: Department of Defense Inspector General

Subj: EVALUATION OF CONTRACTING OFFICER ACTIONS ON COST ACCOUNTING
STANDARD NONCOMPLIANCES REPORTED BY DEFENSE CONTRACT AUDIT
AGENCY (PROJECT NO. D2016-DAPOCF-0018.000)

Ref: (a) Report No. DODIG Draft Report D2016-0018

Encl: (1) NAVSEA Response to Recommendations dated 12 October 2016

1. In accordance with reference (a), enclosure (1) provides the NAVSEA responses to the subject report. Based on our review of the subject report, we concur with recommendations A.2 and D.2.

A blue ink signature of the name "JON NELSON" followed by "By direction".

JON NELSON
By direction

cc.
NAVINSGEN (N14) (w/encl)

Naval Sea System Command (cont'd)

Implementation Status Report
OPNAV FORM 5040/2 (11-68)

OPNAV REPORT 5040-1

STATUS AS OF:
12 October 2016

REPORTED BY:
Naval Sea Systems Command

[REDACTED]

[REDACTED]

[REDACTED]

AUDIT TITLE:

DoDIG Audit Project D2016-DAPOCF-0018.000, Evaluation of Contracting Officer Actions on Cost Accounting Standard Noncompliance Reported by Defense Contract Audit Agency

IDENTIFICATION OF ACTION ITEMS

RECOMMENDATION A2:

We recommendation that the Deputy Director of Contract Policy, Naval Sea Systems Command, through the Commander, Supervisor of Shipbuilding, Conversion and Repair Field Procurement Oversight:

- a. assess the one case that has not been dispositioned and determine the additional actions that should be taken on the non-compliances.
- b. Provide training to contracting officers on:
 - (1) the timely processing cost accounting standard noncompliances in accordance with Federal Acquisition Regulation 30.605 and DoD Instruction 7604.02; and
 - (2) documenting reasons for not meeting the timelines.

NAVSEA RESPONSE:

CONCUR. The Case 2014Y1920001 was reviewed and updates were provided in CAFU accordingly. Additional actions are being recorded in the ACO's Post Business Case Clearance. Deputy Division Director, Field Competency, Supervisor of Shipbuilding and Conversion Repair (SEA 022C) will provide a training stand down and emphasize FAR 30.605 and DoD Instruction 7640.02.

Target completion date: 31 January 2017

RECOMMENDATION D2:

We recommend that the Deputy Director of Contract Policy, Naval Sea Systems Command, thru the Supervisor of Shipbuilding, Conversion, and Repair Field Procurement Oversight:

- a. request that contracting officers correct the three Contract Audit Follow-up System errors; and

Naval Sea System Command (cont'd)

Implementation Status Report
OPNAV FORM 5040/2 (11-68)

OPNAV REPORT 5040-1

- b. provide training to Supervisor of Shipbuilding, Conversion and Repair contracting officers on the requirements for maintaining accurate Contract Audit Follow-up records.

NAVSEA RESPONSE:

CONCUR. Deputy Division Director, Field Competency, Supervisor of Shipbuilding and Conversion Repair (SEA 022C) will (1) require cognizant contracting officers to correct the three errors in the CAFU report and (2) hold a training stand down with DACO appointees assigned management of the CAFU at their respective contracting activities.

Target Completion Date: 31 January 2017

Abbreviations and Acronyms

CAFU	Contract Audit Follow-Up
CAS	Cost Accounting Standard
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
FAR	Federal Acquisition Regulation
GDM	General Dollar Magnitude
OIG	Office of Inspector General
NAVSEA	Naval Sea Systems Command
SUPSHIP	Supervisor of Shipbuilding, Conversion and Repair

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal.

The DoD Hotline Director is the designated ombudsman.

For more information, please visit the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

For more information about DoD IG reports or activities, please contact us:

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