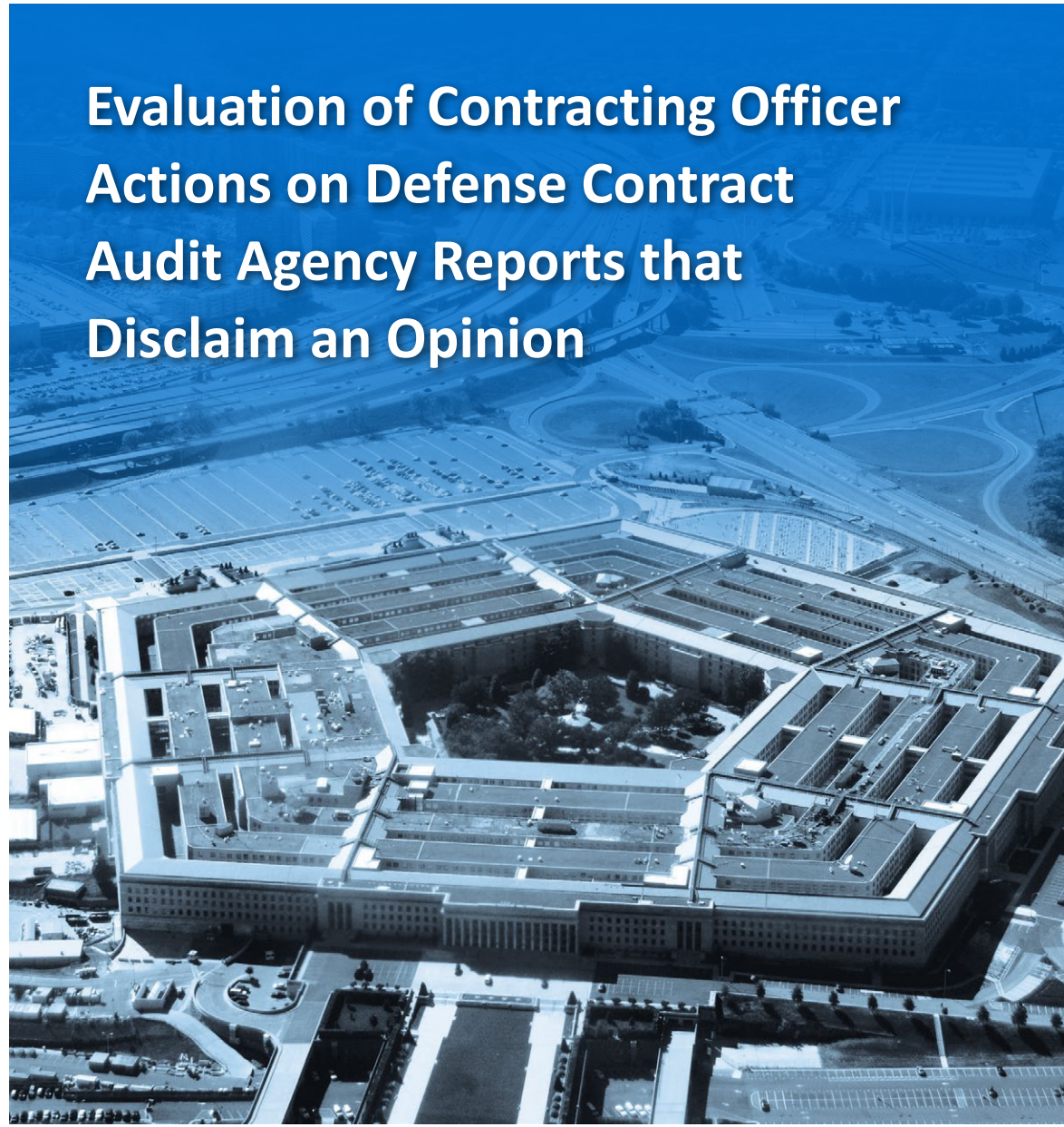




INSPECTOR GENERAL

U.S. Department of Defense

NOVEMBER 26, 2019



Evaluation of Contracting Officer Actions on Defense Contract Audit Agency Reports that Disclaim an Opinion

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Evaluation of Contracting Officer Actions on Defense Contract Audit Agency Reports that Disclaim an Opinion

November 26, 2019

Objective

The objective of this evaluation was to determine whether the actions taken by DoD contracting officers on Defense Contract Audit Agency (DCAA) audit reports that disclaimed an audit opinion complied with the Federal Acquisition Regulation (FAR), DoD Instructions, and agency policy.

To accomplish the objective, we evaluated contracting officer actions on 21 DCAA audit reports that disclaimed an opinion but questioned \$750 million. Defense Contract Management Agency (DCMA) contracting officers were responsible for taking action on 20 of the reports, and Naval Supply Systems Command (NAVSUP) contracting officers were responsible for taking action on 1 of the reports.

Background

DCAA is responsible for auditing DoD contractor annual incurred cost proposals to determine whether the claimed costs are allowable. After completing an audit of an incurred cost proposal, DCAA issues a report that includes the auditor's opinion on the incurred cost proposal taken as a whole. When DCAA is unable to perform all audit procedures necessary to obtain sufficient appropriate evidence and conclude whether potential noncompliances are material and pervasive, DCAA disclaims an opinion on the incurred cost proposal taken as a whole. When DCAA disclaims an opinion, DCAA is still responsible for reporting on any claimed DoD contractor costs that it determines are not allowable on Government contracts (also referred to as questioned costs).

Background (cont'd)

Contracting officers are responsible for taking action on the questioned costs identified in DCAA audit reports, including those reports that disclaim an audit opinion. After the contracting officers complete their action on a DCAA audit report of an incurred cost proposal, they are required to prepare an indirect cost rate agreement, which establishes the indirect cost rates that the DoD contractor must use to bill the Government and close contracts.

Findings

For 19 of the 21 audit reports we selected, we found that contracting officers took appropriate action on DCAA's audit findings. However, for 2 of the 21 DCAA audit reports, DCMA contracting officers did not document adequate rationale for disagreeing with \$219 million in DCAA questioned costs. The contracting officers did not adequately justify why they reimbursed the \$219 million to the DoD contractors. As a result, the two contracting officers may have reimbursed up to \$219 million to the DoD contractors that were not allowable on Government contracts.

We also found that 11 of the 21 contracting officers prepared indirect cost rate agreements that did not include all of the elements required by the FAR, such as the applicable periods for the indirect rates. Also, five contracting officers could not demonstrate that they had provided the negotiation memorandum to the DCAA offices that provided field pricing support, as the FAR requires.

Finally, some contracting officers did not complete their actions on the audit reports in a timely manner or enter accurate status information in the DoD Contract Audit Follow-up (CAFU) system. We determined that:

- for 10 of the 21 audit reports, DCMA contracting officers did not complete their actions within the 6-month resolution and 12-month disposition timeframes required by DoD Instruction 7640.02; and



Results in Brief

Evaluation of Contracting Officer Actions on Defense Contract Audit Agency Reports that Disclaim an Opinion

Findings (cont'd)

- for 15 audit reports, DCMA contracting officers did not enter accurate information in one or more CAFU system data fields, including the Questioned Costs, Questioned Costs Sustained, Resolution Date, and Disposition Date data fields.¹

Timely action helps to ensure that the contractor corrects noncompliances and the Government promptly recoups unallowable costs. Errors in the CAFU system diminish the reliability of the system as a tool for monitoring contracting officer actions on DCAA audit reports.

Recommendations

We recommend that the Defense Contract Management Agency Director require the contracting officers to determine if any of the \$219 million in questioned costs reported by DCAA are not allowable according to the FAR and take steps to recoup any portion of the \$219 million that is not allowed on Government contracts.

We also recommend that the Commander of the Naval Supply Systems Command provide contracting officers with training on the DoD Instruction 7640.02 requirement to document, on a monthly basis, the cause for delays in resolving and dispositioning audit reports, and the actions taken to achieve resolution or disposition. The training should also cover the requirement to report accurate data in the CAFU system.

Management Comments and Our Response

The Defense Contract Management Agency Director agreed with the recommendation. The Director agreed to begin a review of the contracting officers' decisions for not sustaining the DCAA reported questioned costs.

The Director also stated that the review will address whether the contractor received reimbursement of costs not allowed on Government contracts.

Comments from the Director addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the Director reviewed the contracting officers' actions and determined allowability of the questioned costs.

The Chief of Staff from the Office of the Deputy Assistant Secretary of the Navy (Acquisition and Procurement), responding for the Commander of the Naval Supply Systems Command, agreed with the recommendation, stating that users of the CAFU system would receive training on the DoD Instruction 7640.02 requirements.

Comments from the Chief of Staff addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the Naval Supply Systems Command has provided training to its contracting officers on the DoD Instruction 7640.02 requirements.

Please see the Recommendation Table on the next page for the status of the recommendations.

¹ DoD Instruction 7640.02, "Policy for Follow-Up on Contract Audit Reports," April 15, 2015, Enclosure 3, page 9.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Defense Contract Management Agency Director	None	A.1	A.2
Commander, Naval Supply Systems Command	None	C	None

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.





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

November 26, 2019

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
AUDITOR GENERAL OF THE NAVAL AUDIT SERVICE
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: Evaluation of Contracting Officer Actions on Defense Contract Audit Agency
Reports That Disclaim an Opinion (Report No. DODIG-2020-036)

This final report provides the results of the DoD Office of Inspector General's evaluation. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Defense Contract Management Agency Director and the Commander of Naval Supply Systems Command agreed to address the recommendations presented in this report. Except for one recommendation, the recommendations are considered resolved and open. As described in the Recommendations, Management Comments, and Our Response sections of this report, the recommendations may be closed when we receive adequate documentation showing that all agreed-upon actions to implement the recommendations have been completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Your response should be sent to [REDACTED]

This report also contains one recommendation where management's comments and associated actions addressed the recommendation and we consider the recommendation closed.

If you have any questions, please contact [REDACTED]
[REDACTED]

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is located in the bottom right area of the page.

Randolph R. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering, and Oversight

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Introduction

Objective

The objective of this evaluation was to determine whether the actions taken by DoD contracting officers on Defense Contract Audit Agency (DCAA) audit reports that disclaimed an audit opinion complied with the Federal Acquisition Regulation (FAR), DoD Instructions, and agency policy.

To accomplish the objective, we evaluated contracting officer actions on 21 DCAA incurred cost audit reports which disclaimed an opinion but reported on \$750 million in DoD contractor costs that did not comply with the FAR. Of the 21 audit reports, Defense Contract Management Agency (DCMA) contracting officers were responsible for taking action on 20 of them, and Naval Supply Systems Command (NAVSUP) contracting officers were responsible for taking action on 1 of them. See Appendix A for details of our scope and methodology. Appendix B identifies the 21 DCAA audit reports we selected.

Background

Federal Acquisition Regulation Part 42

FAR Part 42, “Contract Administration and Audit Services,” describes the policies and procedures for assigning and performing contract administration and contract audit services. FAR Subpart 42.7, “Indirect Cost Rates,” prescribes policies and procedures for establishing a DoD contractor’s indirect cost rates. Indirect costs include any costs that are not directly identified to a contract, such as general office expenses and fringe benefits. A DoD contractor calculates an indirect cost rate to equitably spread indirect costs among its contracts. FAR 52.216-7(d), “Final Indirect Cost Rates,” requires DoD contractors to submit an adequate indirect cost rate proposal to the contracting officer and to the DCAA. Indirect cost rate proposals, or incurred cost proposals, identify the annual costs claimed by the DoD contractor.

The contracting officer is required to conduct negotiations on the indirect cost rate proposal in accordance with FAR 42.705-1(b)(5)(i), “Contracting Officer Determination Procedure.” FAR 42.705-1(b)(5)(iii)(C) requires contracting officers to prepare a negotiation memorandum that includes reasons why any recommendations of the auditor or other Government advisers were not followed. FAR 42.705-1(b)(4) states that the contracting officer is required to obtain adequate documentation for any costs that the contract auditor questions.

In addition, DCMA Instruction 126, “Contract Audit Follow Up,” reiterates these requirements and emphasizes that contracting officers must include sound rationale in the negotiation memorandum when they disagree with audit findings and recommendations.

Defense Contract Audit Agency

DCAA performs contract audits for the DoD and operates in accordance with DoD Directive 5105.36, “Defense Contract Audit Agency,” January 4, 2010. DCAA reports to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. DCAA performs several types of contract audits, including audits of DoD contractor-incurred cost proposals.

DCAA audits DoD contractor-incurred cost proposals to determine whether the contractor’s incurred costs claimed on Government contracts are allowable based on applicable criteria in the FAR, the Defense Federal Acquisition Regulation Supplement, Cost Accounting Standards, and contract terms. At the conclusion of the audit, DCAA issues a report that includes the auditor’s opinion on the incurred cost proposal taken as a whole. Consistent with Government Auditing Standards, DCAA issues one of the following four audit opinions:

1. **Unqualified Opinion:** DCAA issues an unqualified opinion when it conducts all audit procedures considered necessary and obtains sufficient appropriate evidence to be reasonably sure that the incurred cost proposal, as a whole, is free of material noncompliances.
2. **Qualified Opinion:** DCAA issues a qualified opinion when it discloses noncompliances that are material but not pervasive, or when it is unable to obtain sufficient appropriate audit evidence and the potential effects are material but not pervasive.
3. **Adverse Opinion:** DCAA issues an adverse opinion when it discloses noncompliances that are material and pervasive.
4. **Disclaimer of Opinion:** DCAA disclaims an opinion when it is unable to perform all audit procedures considered necessary to obtain sufficient appropriate evidence and conclude whether any noncompliances are material and pervasive. When DCAA disclaims an opinion, it still has an obligation to report to the contracting officer any proposed costs that it determines are not allowable on Government contracts.

As part of the evaluation, we selected 21 DCAA audit reports that disclaimed an audit opinion but reported on costs that were not allowable on Government contracts. For all 21 reports, DCAA reported that \$750 million in DoD contractor-claimed incurred costs (questioned costs) were not allowable according to FAR Part 31, “Contract Cost Principles and Procedures.”

Defense Contract Management Agency

DCMA operates in accordance with DoD Directive 5105.64, “Defense Contract Management Agency,” January 10, 2013, and functions under the authority, direction, and control of the Under Secretary of Defense for Acquisition and Sustainment. DCMA works with DoD contractors to ensure that Government supplies and services are delivered on time and at the projected cost.

In its role as the contract administration office, outlined in FAR Subpart 42.3, “Contract Administration Office Functions,” DCMA is responsible for several contract administrative functions, such as establishing final indirect cost rates, approving or disapproving DoD contractor business systems, and evaluating DoD contractor compliance with the Cost Accounting Standards. In most cases, DCMA contracting officers are responsible for taking action on DCAA incurred cost audit reports. After considering the findings in the DCAA report, the contracting officer negotiates an indirect cost rate agreement with the DoD contractor, which establishes the indirect cost rates that the DoD contractor must use to bill the Government and close contracts. Once signed, the indirect cost rate agreement represents a binding agreement between the Government and the DoD contractor.

Naval Supply Systems Command

NAVSUP provides program and supply support to U.S. Navy forces. NAVSUP administers contracts for the Navy Field Contracting System, which includes more than 70 contracting activities. NAVSUP contracting officers are responsible for taking action on audit reports that involve these contracting activities.

Finding A

DCMA and NAVSUP Contracting Officers Generally Took Appropriate Action on DCAA Reports That Disclaimed an Opinion

For 19 of the 21 DCAA audit reports we selected, DCMA and NAVSUP contracting officers took appropriate action on the findings and recommendations in DCAA reports that disclaimed an opinion. The contracting officers either sustained the DCAA questioned costs or documented adequate rationale for disagreeing with them.

However, for 2 of the 21 DCAA audit reports we selected, DCMA contracting officers did not document adequate rationale for disagreeing with DCAA questioned costs totaling \$219 million. DCAA primarily questioned the costs based on the contractor's failure to provide supporting documentation for the claimed costs, as FAR 31.201-2, "Determining Allowability," requires. The DCMA contracting officers documented one or more of the following reasons for not sustaining DCAA's recommendation to disallow the questioned costs:

- The required time periods for the contractor to retain any of the records had lapsed.²
- The questioned costs in the audit report were identical to those disputed before the Armed Services Board of Contract Appeals (ASBCA), which rendered an opinion against the DCAA questioned costs.
- No action on the audit report was required because DCAA had disclaimed an audit opinion.

However, none of these reasons adequately justify the contracting officers' decision not to sustain the DCAA questioned costs. Regardless of the minimum record retention time periods specified in the FAR, the contractor had an obligation to support its costs claimed on Government contracts. Also, contracting officers must take appropriate action in response to DCAA questioned costs, even though DCAA disclaims an audit opinion. As a result, the contracting officers may have inappropriately reimbursed DoD contractors up to \$219 million in costs that are not allowable on Government contracts.

² The records retention period refers to the amount of time the contractor is required to make available all records, materials, and evidence for examination or audit.

DCAA Questioned \$750 Million in Selected Audit Reports That Disclaimed an Opinion

As part of our evaluation, we selected 21 DCAA audit reports that disclaimed an audit opinion. In the 21 audit reports, DCAA reported on \$750 million in DoD contractor incurred costs that did not comply with FAR Part 31, "Contract Cost Principles and Procedures," and were not allowable on Government contracts.

For 12 of the 21 reports, DCAA questioned the costs primarily because the contractors did not provide support for the claimed costs; therefore, DCAA recommended that the contracting officers disallow the costs in accordance with FAR 31.201-2(d), "Determining Allowability." The FAR requires the contractor to maintain records to demonstrate that the costs claimed have been incurred. For the remaining nine reports, DCAA questioned the majority of the costs because it determined that the costs did not comply with various provisions of FAR 31.205, "Selected Costs," and could not be claimed on Government contracts.

For example, in DCAA Audit Report No. 2331-2011T10100001, DCAA identified \$3.5 million in claimed travel expenses that did not comply with FAR 31.205-46(a)(6)(i), "Travel Costs," because the contractor was unable to provide adequate supporting documentation for employee expense reports, including receipts for lodging expenses.

DCMA and NAVSUP Contracting Officers Generally Took Appropriate Actions on the DCAA Reports

For 19 of the 21 DCAA audit reports we selected, DCMA and NAVSUP contracting officers took appropriate action on the findings and recommendations in DCAA reports that disclaimed an opinion. The contracting officers either sustained the DCAA questioned costs or documented adequate rationale for disagreeing with the DCAA questioned costs.

For example, in Audit Report No. 6431-2008C10100029, DCAA questioned \$552,000 in bonus costs because the contractor could not provide a written bonus plan or demonstrate its practice for awarding bonuses, as required by FAR 31.205-6(f)(i)(ii), "Bonuses and Incentive Compensation." However, after report issuance and during negotiations with the contracting officer, the contractor was able to provide the written bonus plan and describe its practice

for awarding bonuses. The contracting officer consulted with the DCAA auditor who, after reviewing the plan and the description of the practice, concluded that the contractor's bonus costs complied with the FAR. Therefore, the contracting officer appropriately documented his rationale for disagreeing with the originally reported DCAA questioned costs, based on subsequent receipt of the bonus plan and consultation with the DCAA auditor.

Contracting Officers Did Not Justify Their Actions on Two DCAA Reports

For 2 of 21 DCAA audit reports we selected, DCMA contracting officers did not document adequate rationale for disagreeing with DCAA's questioned costs totaling \$219 million.

DCAA Audit Report No. 6341-2009A10100044

In DCAA Audit Report No. 6341-2009A10100044, DCAA reported on \$216 million in questioned subcontract costs. Of the \$216 million, DCAA reported that \$209 million did not comply with FAR 52.232-7(a), "Payments under Time-and-Materials and Labor-Hour Contracts," because the contractor did not substantiate its vouchers with timecards or other appropriate evidence. The remaining \$7 million in questioned subcontract costs were based on the results of assist audit reports received from other DCAA field offices that audited the subcontract costs.³

The contracting officer, who is assigned to the DCMA Philadelphia field office, did not sustain the \$209 million in questioned subcontract costs. The contracting officer documented in his negotiation memorandum that the 4-year period prescribed by FAR Subpart 4.7, "Contractor Record Retention," for retaining subcontract records had lapsed because the costs were incurred 7 years ago. Therefore, he concluded that it would not be fair or reasonable to sustain the \$209 million in DCAA questioned costs and recoup the costs from the contractor.

We disagree with the contracting officer's decision to not sustain the DCAA questioned costs of \$209 million. The record retention periods outlined in FAR 4.7 identify the minimum amount of time that the contractor must maintain records to support its claimed costs. DCAA determined that the contractor never maintained appropriate records that fully supported the subcontract costs. Regardless of the

³ Subcontractor assist audit reports are prepared by the DCAA office responsible for auditing the subcontractor's incurred cost proposal.

minimum retention period specified in the FAR, the contractor had an obligation to support its costs claimed on Government contracts in accordance with the following two FAR requirements:

- FAR 31.201-2(d), “Determining Allowability,” requires the contractor to support any claimed cost on government contracts. It states that a contractor is responsible for accounting for costs and maintaining records adequate to demonstrate that the contractor’s claimed costs have been incurred.
- FAR 52.232-7(a)(5), “Payments under Time-and-Materials and Labor-Hour Contracts,” requires the contractor to substantiate vouchers, including any subcontractor hours by evidence of actual payment, by individual daily job timekeeping records, and records that verify the employees meet the qualifications for the labor categories specified in the contract, or other evidence approved by the contracting officer.

Additionally, FAR 42.705-1(b)(4)(i)(a), “Contracting Officer Determination Procedure,” prohibits the contracting officer from resolving (or otherwise allowing) any questioned cost without obtaining adequate documentation on the costs. Therefore, the contracting officer should not have allowed the \$209 million in subcontract costs until he received adequate supporting documentation from the contractor.

Regarding the remaining \$7 million in DCAA questioned costs, the contracting officer documented in the negotiation memorandum that he did not sustain the DCAA questioned costs based on the outcome of two Armed Services Board of Contract Appeals (ASBCA) cases.⁴ Although the contracting officer indicated in the negotiation memorandum that the circumstances of the questioned costs were identical to those discussed in the ASBCA cases, the contracting officer failed to include any evidence to demonstrate that the outcome of the ASBCA cases would apply to the \$7 million questioned by DCAA. Therefore, the contracting officer failed to adequately justify why he did not sustain the questioned costs of \$7 million.

⁴ The ASBCA is a neutral, independent forum that hears and decides post-award contract disputes between Government contractors and the DoD, the National Aeronautics and Space Administration, the Central Intelligence Agency, and other entities. The majority of ASBCA matters involve contractors that appeal a Government contracting officer final decision or a failure to issue a decision.

DCAA Audit Report No. 1281-2007J10100015

In DCAA Audit Report No. 1281-2007J10100015, DCAA questioned \$3 million in direct labor, subcontractor costs, and indirect expenses, primarily based on FAR 31.201-2(d), “Determining Allowability,” because the contractor did not maintain adequate records to demonstrate that the claimed costs had been incurred by the contractor.

The contracting officer, who is assigned to the DCMA Atlanta field office, stated in the negotiation memorandum that she did not sustain the \$3 million in questioned costs because she believed she was not required to take any action on DCAA audit reports that disclaim an audit opinion. In our interview with the contracting officer, the contracting officer stated her opinion that DCAA did not perform an audit and that the DCAA audit report “was a nothing report.”

The DCMA contracting officer failed in her obligation to take appropriate action on the DCAA questioned costs, as FAR 42.705-1(b)(5)(iii) requires. The contracting officer’s position is flawed because:

- although DCAA disclaimed an opinion, the contracting officer had a responsibility to take action on the costs that DCAA stated did not comply with the FAR; and
- the contracting officer did not follow the negotiation process outlined in FAR 42.705-1(b)(4). The contracting officer did not maintain evidence that she obtained adequate documentation for the contractor’s costs.

As a result of the contracting officers’ failure to take the appropriate action on DCAA Audit Report Nos. 6341-2009A10100044 and 1281-2007J10100015, the contracting officers may have reimbursed DoD contractors up to \$219 million in costs that are not allowable on Government contracts. DCMA should review the contracting officers’ actions to determine if any of the \$219 million in questioned costs reported by DCAA are not allowable according to the FAR and take steps to recoup any portion of the costs identified as not allowable on Government contracts. Additionally, DCMA should review the actions of the two contracting officers to determine whether management action is necessary to hold those individuals accountable.

DCMA Took Action on Prior Recommendations

For DoD OIG Report No. DODIG-2018-134, “Evaluation of DoD Hotline Complaint Regarding Defense Contract Management Agency Baltimore’s Actions on Audit Findings Reported by Defense Contract Audit Agency,” we evaluated a Hotline complaint alleging that a DCMA Baltimore contracting officer did not take

appropriate action on \$1.1 million in costs that DCAA reported as noncompliant with the FAR. We substantiated the allegation and concluded that the contracting officer may have reimbursed up to \$1.1 million in unallowable indirect costs to the DoD contractor. We also found that the contracting officer failed to take any action for more than 4 years on an additional \$9 million in direct costs that DCAA reported as noncompliant with the FAR in the same audit report.

We determined that insufficient training, DCMA procedures, and lack of effective management oversight contributed to the contracting officer's failure to take appropriate action on the noncompliant costs reported by DCAA. In response, DCMA issued Manual 2201-03, "Final Indirect Cost Rates," February 2019, which outlines DCMA's new procedures for addressing audit reports that disclaim an audit opinion.

Also, DCMA and the Defense Acquisition University created a new training course, referred to as the Contract Management–Contract Administration and Pricing 210, "Contract Audit Follow-Up" course. This course covers the different types of audit report opinions and tips for taking action on the audit reports. In this course, contracting officers also learn the requirements in the FAR, DoD Instructions, and DCMA policies for addressing audit reports and for documenting their actions in response to the reports.

As of August 6, 2019, the DCMA contracting officer responsible for DCAA Audit Report No. 6341-2009A10100044 had not yet taken the Contract Audit Follow-up course. All other contracting officers we selected for this project have taken the new training. The contracting officer who took action on Audit Report No. 6341-2009A10100044 should complete the Contract Audit Follow-up course.

Conclusion

For 19 of 21 DCAA audit reports, DCMA and NAVSUP contracting officers took appropriate action on the audit reports that disclaimed an opinion. However, for 2 of 21 audit reports, we determined that DCMA contracting officers did not document adequate rationale for not sustaining \$219 million in questioned costs.

As a result of not taking adequate action on the \$219 million in DCAA questioned costs, the DCMA contracting officers may have reimbursed up to \$219 million in costs that are not allowable on Government contracts.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Director of the Defense Contract Management Agency require the contracting officers to:

- a. Determine if any of the \$219 million in questioned costs reported by Defense Contract Audit Agency in Report Nos. 6341-2009A10100044 and 1281-2007J10100015 are not allowable according to Federal Acquisition Regulation Part 31, "Contracts with Commercial Organizations."
- b. Take steps to recoup any portion of the \$219 million that is not allowed on Government contracts.
- c. Review the actions of the contracting officers on Report Nos. 6341-2009A10100044 and 1281-2007J10100015 to determine whether management action is necessary to hold those individuals accountable.

Defense Contract Management Agency Comments

The DCMA Director agreed with the recommendation and will begin a review of the contracting officers' decisions not to sustain the questioned costs in the two DCAA audit reports. The Director stated that the review will also determine if the contracting officers reimbursed costs that were not allowable on Government contracts. Subsequent to receiving the Director's written comments, a DCMA senior official also clarified to us that DCMA will take reasonable steps to recoup any unallowable costs identified by the review. Additionally, the senior official also stated that DCMA will assess whether action should be taken to hold the contracting officers accountable for not sustaining any DCAA questioned costs determined to be unallowable.

Our Response

Comments from the Director addressed the intent of the recommendation. Therefore, the recommendation is resolved, but will remain open. We will close this recommendation once we verify that DCMA reviewed the contracting officers' actions on the two DCAA audit reports and:

- determined if any of the \$219 million in questioned costs were unallowable on Government contracts,
- took steps to recoup any cost that are not allowable, and
- determined whether management action is necessary to hold the contracting officers accountable.

Recommendation A.2

We recommend that the Director of the Defense Contract Management Agency require that the contracting officer who took action on Audit Report No. 6341-2009A10100044 complete the Contract Management–Contract Administration and Pricing 210, “Contract Audit Follow-up,” training course.

Defense Contract Management Agency Comments

The DCMA Director agreed with the recommendation, stating that the Contracts Executive Director issued a new training requirement that all contracting personnel take the Contract Audit Follow-Up course. The Director also stated that the course completion rate was at 98 percent as of August 31, 2019. However, the contracting officer who took action on the audit report is no longer with DCMA.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved and closed. DCMA is taking steps to ensure that all DCMA contracting officers complete the Contract Audit Follow-up course. Furthermore, we verified that the contracting officer who took action on Audit Report No. 6341-2009A10100044 no longer works for DCMA.

Finding B

DCMA Contracting Officers Generally Did Not Adequately Prepare or Distribute Negotiation Documents

For 11 of 20 audit reports, the DCMA contracting officers did not include at least one of the following three elements of the indirect cost rate agreement required by FAR 52.216-7(d)(3):

- the indirect cost bases for each indirect rate,
- the applicable periods for the indirect rates, and
- the affected contracts.⁵

These elements are important to ensure that the contractual agreement between the Government and the contractor accurately captures the agreed-upon rates, the correct timeframe, and the affected contracts. As a result of not including some of the required elements, contracting officers may have reimbursed DoD contractors unallowable costs that cannot be recouped.

Additionally, for 5 of the 20 audit reports, DCMA contracting officers could not demonstrate that they had provided the negotiation memorandum to offices that provided field pricing support, as FAR 42.706-3(b), "Distribution of Documents," requires. Providing the negotiation memorandum to DCAA helps DCAA properly record the negotiation results, perform contract audits, and make future audit support more effective.

In Report No. DODIG-2017-055, we reported that eight DCMA contracting officers could not demonstrate that they had distributed the negotiation memorandum and the indirect cost rate agreements as required.⁶ In October 2018, DCMA developed the Contract Audit Follow-up course that addresses the requirements for preparing and distributing negotiation documents. All 20 DCMA contracting officers discussed in this report have since taken the course or left the DCMA.

⁵ Finding B only includes the 20 audit reports where DCMA contracting officers were responsible for taking action. An indirect cost base is used to allocate indirect expenses over multiple benefitting contracts.

⁶ Report No. DODIG-2017-055, "Evaluation of Defense Contract Management Agency Contracting Officer Actions on Defense Contract Audit Agency Incurred Cost Audit Reports," February 9, 2017.

Indirect Cost Rate Agreements Must Include Certain Elements to Be Effective

When establishing indirect cost rates, contracting officers are required by FAR 42.705-1(b)(5)(ii) to prepare a written indirect cost rate agreement, which serves as the negotiated final settlement between the Government and the DoD contractor for indirect cost rates used on Government flexibly-priced contracts.⁷ The accuracy and completeness of the indirect cost rate agreement is an important part of the contract administration process. The indirect cost rate agreement, which is prepared annually, establishes the indirect cost rates that the contractor will use to bill the Government and close contracts. Once signed, the indirect cost rate agreement is binding on the Government and the contractor. FAR 52.216-7(d)(3) requires that contracting officers document the following in the indirect cost rate agreement:

- the final indirect cost rates established for the fiscal year,
- the indirect cost bases for each indirect rate,
- the applicable periods for the indirect rates,
- any specific indirect costs that will be treated as direct costs in the settlement, and
- the affected contracts.

DCMA Contracting Officers Generally Prepared Indirect Rate Agreements Without the Required Elements

For 11 of the 20 audit reports, the DCMA contracting officers did not include at least one of the following three elements required by FAR 52.216-7(d)(3):

- the indirect cost base description for each indirect rate,
- the applicable periods for the indirect rates, and
- the affected contracts.

See Appendix C for details of the missing elements, by audit report.

For example, in nine instances, DCMA contracting officers did not include a description of the indirect allocation base for each indirect rate. Without documenting the allocation base for each indirect rate, users of the indirect cost rate agreement are not aware of what allocation bases the contractor used to distribute indirect costs. Including a description of the allocation base is important

⁷ Flexibly-priced contracts are contracts in which the price may be adjusted based on actual costs incurred.

to ensure that the contractor is consistently calculating indirect cost rates each year. The DCMA contracting officers received training on the FAR requirements after they had prepared the indirect cost rate agreements discussed in this report. Therefore, we are not making any additional recommendations at this time.

Five DCMA Contracting Officers Did Not Distribute Negotiation Documents to DCAA as Required

FAR 42.706-3(b), “Distribution of Documents,” requires contracting officers to distribute a copy of the negotiation memorandum to offices that provide field pricing support, including DCAA. The negotiation memorandum serves as the official record of actions taken by the contracting officer, and it demonstrates whether the actions were consistent with applicable regulations. It also serves to protect the Government’s interests in the event of future disputes.

For the following five audit reports, the contracting officers could not demonstrate that they had provided the negotiation memorandum to DCAA:

- 2161-2012P10100012
- 2421-2009I10100001
- 6171-2010E10100002
- 6341-2009A10100044
- 6431-2008C10100029

Furnishing the negotiation documents to DCAA helps DCAA record the negotiation results, perform final contract audits, and make future audit support more effective. Three contracting officers stated that they believed the document had been distributed to DCAA, but the contracting officers could not furnish any evidence that the document had been distributed. The remaining two contracting officers acknowledged that they did not distribute the negotiation memorandum. All five contracting officers stated that they were aware of the requirement for distributing the negotiation memorandum to DCAA.

DCMA Took Action on Prior Recommendations

In Report No. DODIG-2017-055, “Evaluation of Defense Contract Management Agency Contracting Officer Actions on Defense Contract Audit Agency Incurred Cost Audit Reports,” February 9, 2017, we reported that eight DCMA contracting officers could not demonstrate that they had distributed the negotiation memorandum and the indirect cost rate agreements as required. In response to Report No. DODIG-2017-055, DCMA developed the Contract Audit Follow-up course in October 2018, and began providing the course to its contracting officers

and supervisors. We confirmed that the course addresses the requirements for preparing and distributing indirect cost rate agreements and negotiation memorandums. All of the DCMA contracting officers responsible for taking action on the selected 20 audit reports have since completed the course or left the DCMA. Therefore, we are not making a recommendation for this finding. The recommendation in Report No. DODIG-2017-055 will remain open until DCMA provides evidence that all DCMA contracting officers have completed the course and we have verified the effectiveness of the course.

Conclusion

Proper preparation and prompt distribution of the negotiation memorandum and indirect cost rate agreement are essential because affected Government agencies use these documents to determine final allowable costs on Government contracts. For 11 of 20 audit reports, the contracting officers failed to include at least one of three elements required to be included on the indirect cost rate agreement, as required by FAR 52.216-7(d)(3). Also, in 5 of the 20 audit reports, contracting officers could not demonstrate that they had provided the negotiation memorandum to DCAA, as FAR 42.706-3(b) requires.

In response to a prior OIG recommendation, DCMA is requiring that all contracting officers and supervisors complete the Contract Audit Follow-up course, which includes training on the appropriate preparation and distribution of incurred cost rate agreements and negotiation memorandums. Therefore, we are not making a recommendation for this finding.

Finding C

DCMA and NAVSUP Contracting Officer Actions Were Untimely or Inaccurately Recorded

DCMA and NAVSUP contracting officers did not complete their actions on the reports we selected in a timely manner or enter accurate information in the Contract Audit Follow-up (CAFU) system, as required by DoD Instruction 7640.02. Specifically:

- for 10 audit reports, nine DCMA contracting officers and one NAVSUP contracting officer did not complete their actions within the 6-month resolution or 12-month disposition timeframes required by the DoD Instruction; and
- for 15 audit reports, 14 DCMA contracting officers and 1 NAVSUP contracting officer entered inaccurate information in the CAFU system.

Timely disposition of DCAA audit findings helps to ensure that the contractor corrects the reported noncompliance in a timely manner and that the Government promptly recoups unallowable costs, penalties, and interest. Errors within the CAFU system diminish its effectiveness as a tool for monitoring contracting officer actions on DCAA audit reports.

In October 2018, in response to a prior OIG report, DCMA developed the Contract Audit Follow-up course that addresses the requirements for taking timely action on DCAA audit reports and for maintaining accurate CAFU records. The DCMA contracting officers responsible for taking action on the selected 20 audit reports have since completed the course or left the DCMA.

Contracting Officers Must Take Action on Audit Reports in a Timely Manner

For 10 of 21 audit reports, nine DCMA contracting officers and one NAVSUP contracting officer did not complete their actions within the 6-month resolution or 12-month disposition timeframes required by DoD Instruction 7640.02. On average, the 10 contracting officers exceeded the resolution and disposition timeframes by 8 months. Appendix D lists the 10 audit reports in which contracting officers did not achieve the established timeframes.

DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," April 15, 2015, establishes policy, assigns responsibilities, and provides direction for record-keeping and reporting requirements for reportable contract audit

reports, including audit reports that disclaim an opinion.⁸ The Instruction requires that contracting officers resolve a DCAA audit report within 6 months and disposition the report within 12 months. An audit report is resolved when the contracting officer has documented an action plan for addressing the reported findings in a pre-negotiation objective memorandum. The audit report is dispositioned when the contracting officer has prepared a signed and dated negotiation memorandum and executed any other required contractual actions (such as an indirect cost rate agreement).

When the contracting officers exceeded the timeframes, they did not document the reasons for the delays or the actions they took to achieve a timely disposition, as DoD Instruction 7640.02 requires. Timely resolution and disposition of DCAA audit findings help to ensure that the Government recoups any unallowable costs in a timely manner and that the contractor implements any required corrective actions.

Contracting Officers Are Responsible for Entering Accurate Contract Audit Follow-up Data

For 15 of the 21 audit reports, 14 DCMA contracting officers and 1 NAVSUP contracting officer entered inaccurate information in the Contract Audit Follow-up (CAFU) system. DoD Components use the CAFU system to track and record actions on audit reports. CAFU is an important tool that DoD Component management and the DoD OIG use to monitor the status of contracting officer actions taken on DCAA audit reports across the DoD. Contracting officers are responsible for the accuracy of CAFU system data, and they must promptly update their actions on each record assigned to them. For example, when contracting officers complete the disposition of an audit report, they must promptly and accurately enter in the CAFU system the amount of questioned costs they upheld and the date they completed the disposition.

Each record in the CAFU system represents a DCAA audit report. We evaluated the accuracy of the CAFU records associated with the 21 audits reports we selected. We focused our evaluation on the accuracy of the following four key data fields that made up each CAFU record.

- Questioned Costs
- Questioned Costs Sustained
- Resolution Date
- Disposition Date

⁸ With limited exceptions, DoD Instruction 7640.02 defines reportable contract audit reports as all contract audit reports that include questioned costs or recommendations and that require contracting officer action.

Of the 21 audit reports we selected, 15 of the associated CAFU records had inaccurate data in at least one of the four data fields. Appendix E identifies the inaccuracies we found within the four data fields we tested by audit report. Of the 15 audit reports with inaccuracies, DCMA was responsible for 14 reports and NAVSUP was responsible for 1 report.

Questioned Costs

This data field represents the amount of DCAA-reported questioned costs. Of the 21 Questioned Cost fields we tested, 6 were inaccurate. For example, 1 CAFU record showed questioned costs of \$20,000, but the DCAA audit report had actually reported questioned costs of \$1.1 million. The inaccuracy resulted in a \$1.08 million understatement of questioned costs in the CAFU system.

Questioned Costs Sustained

This data field reflects the questioned amounts that the contracting officer upheld and did not allow on Government contracts. Contracting officers enter this amount in the CAFU system after completing all necessary actions on the audit report. Of the 21 questioned cost sustained fields we tested, 8 had errors. For example, 1 CAFU record showed questioned costs sustained of \$1.2 million, but the contracting officer's negotiation memorandum documented that the contracting officer actually sustained \$217,000. The inaccuracy resulted in a \$983,000 overstatement of questioned costs sustained in the CAFU system.

Resolution and Disposition Dates

Of the 21 records we evaluated, DCMA contracting officers entered six inaccurate resolution dates and six inaccurate disposition dates. The resolution dates were inaccurate by an average of 55 days, and the disposition dates were inaccurate by an average of 409 days. For example, 1 CAFU record reflects that the audit report was dispositioned on April 3, 2017, but the negotiation document states that contracting officer dispositioned the audit report on January 11, 2016.

DCMA Took Action on Prior Recommendations

We reported CAFU inaccuracies in two prior reports, including Report No. DODIG-2016-091, "Evaluation of the Accuracy of Data in the DoD Contract Audit Follow Up System," May 13, 2016, and Report No. DODIG-2017-055, "Evaluation of DCMA Contracting Officer Actions on DCAA Incurred Cost Audit Reports," February 9, 2017. In October 2018, DCMA developed the Contract Audit Follow-up course, which addresses the requirements for taking timely action on DCAA audit reports and for maintaining accurate CAFU records. We confirmed that all of the DCMA contracting officers responsible for taking action on the selected 20 audit

reports have since completed the course or left the DCMA. Therefore, we are not making a recommendation for DCMA in response to this finding. However, NAVSUP should provide its contracting officers with training on the DoD Instruction 7640.02 requirements to document monthly the cause for delay and actions taken to achieve timely resolution or disposition. The training should also cover the reporting of accurate data in the CAFU system.

Conclusion

For 10 of the 21 audit reports, the contracting officers exceeded the 6-month resolution or 12-month disposition timeframes required by DoD Instruction 7640.02. In addition, the contracting officers did not document the reason for the delay or the actions they took to achieve disposition. Timely resolution and disposition of DCAA audit findings help to ensure that the Government recoups any unallowable costs in a timely manner and that the contractor implements any required corrective actions. Additionally, of the 21 records we evaluated, 15 had errors within the four data fields we tested. The errors affect the reliability of the CAFU system as a tool for documenting and monitoring contracting officer actions on DCAA audit findings.

Recommendation, Management Comments, and Our Response

Recommendation C

We recommend that the Commander of the Naval Supply Systems Command provide contracting officers with training on the DoD Instruction 7640.02 requirements to:

- **document, on a monthly basis, the cause for delays in resolving and dispositioning audit reports and the actions taken to achieve resolution or disposition, and**
- **report accurate data in the CAFU system.**

Naval Supply Systems Command Comments

The Chief of Staff of the Office of the Deputy Assistant Secretary of the Navy (Acquisition and Procurement), responding for the NAVSUP Commander, agreed with the recommendation and stated that users of the CAFU system will receive training on the DoD Instruction 7640.02 requirements. NAVSUP anticipates providing the training by March 31, 2020.

Our Response

Comments from the Chief of Staff addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that training was provided to CAFU system users which adequately covers the DoD Instruction 7640.02 requirements.

Appendix A

Scope and Methodology

We conducted this evaluation from July 2018 through August 2019 in accordance with the “Quality Standards for Inspection and Evaluation,” published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that we adequately plan the evaluation to ensure that objectives are met and that we perform the evaluation to obtain sufficient, competent, and relevant evidence to support the findings, conclusions, and recommendations. We believe that the evidence obtained was sufficient, competent, and relevant to lead a reasonable person to sustain the findings, conclusions, and recommendations.

To accomplish our evaluation objective, we:

- reviewed relevant parts of the FAR, DoD Instructions, and Agency procedures addressing DCAA audit reports that disclaim an opinion;
- selected all 21 DCAA audit reports that disclaimed an opinion and issued between October 1, 2015, and March 18, 2018, which collectively questioned \$750 million in costs that did not comply with the FAR;
- gained an understanding of the DCAA questioned costs and associated working papers;
- interviewed DCAA audit staff to clarify our understanding of the DCAA questioned costs;
- gathered and analyzed DCMA and NAVSUP records of contracting officer actions taken on the DCAA questioned costs;
- interviewed DCMA and NAVSUP contracting officials involved in taking action on the questioned costs; and
- evaluated DCMA and NAVSUP contracting officer actions for compliance with the FAR, DoD Instruction 7640.02, and Agency instructions.

Use of Computer-Processed Data

In selecting the 21 DCAA audit reports for this evaluation, we relied on two computer-generated lists of audit reports. One list was generated from DCAA’s management information system and identified audit reports with disclaimed opinions issued between October 1, 2015, and March 18, 2018. The other list was generated from the CAFU system, showing DCAA audit reports issued between October 1, 2015, and September 30, 2017. We tested the accuracy of the 21 reports to source documents and determined that the data was reliable.

Use of Technical Assistance

We did not rely on technical assistance for this evaluation.

Prior Coverage

DoD OIG

During the last 5 years, the DoD OIG has issued seven reports on the actions that contracting officers took in response to DCAA audit reports. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

Report No. DODIG-2019-070, “Report on Evaluation of Defense Contract Management Agency Contracting Officer Actions on DoD Contractor Executive Compensation Questioned by the Defense Contract Audit Agency,” March 29, 2019

We evaluated the appropriateness of DCMA actions on 35 DCAA audit reports that questioned executive compensation. In 18 audit reports, DCMA contracting officers did not comply with FAR requirements and reimbursed DoD contractors \$22.5 million in executive compensation that DCAA reported as unreasonable.

Report No. DODIG-2018-134, “Evaluation of DoD Hotline Complaint Regarding Defense Contract Management Agency Baltimore’s Actions on Audit Findings Reported by Defense Contract Audit Agency,” July 9, 2018

We evaluated and substantiated a Defense Hotline complaint alleging that a DCMA contracting officer at the Baltimore field office did not take appropriate action on a DCAA audit report which identified \$1.1 million in indirect costs that did not comply with the FAR.

Report No. DODIG-2017-055, “Evaluation of Defense Contract Management Agency Contracting Officer Actions on Defense Contract Audit Agency Incurred Cost Audit Reports,” February 9, 2017

We evaluated the appropriateness of DCMA actions on DCAA findings reported in 22 incurred cost audit reports. In eight instances, contracting officers did not address direct costs questioned by DCAA totaling \$305 million.

Report No. DODIG-2017-032, "Evaluation of Contracting Officer Actions on Cost Accounting Standard Noncompliances Reported by Defense Contract Audit Agency," December 8, 2016

We evaluated contracting officer actions on Cost Accounting Standard noncompliances reported in 27 DCAA audit reports to determine whether the actions complied with FAR 30.6, "Cost Accounting Standards Administration," DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," and DCMA instructions. We identified several instances in which contracting officers did not comply with the FAR.

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

We evaluated the accuracy of data in the CAFU System, which DoD Components use to track and manage the status of actions that contracting officers take in response to DCAA audit reports. We determined that 41 of the 50 CAFU records included inaccurate information in one or more of the 20 data fields.

Report No. DODIG 2016-001, "Evaluation of Defense Contract Management Agency Actions on Reported DoD Contractor Business System Deficiencies," October 1, 2015

We evaluated DCMA contracting officer actions on DoD contractor business system deficiencies reported in 21 DCAA audit reports. For 21 DCAA reports, DCMA contracting officer actions did not comply with the requirements for reported business system deficiencies.

Report No. DODIG-2015-139, "Evaluation of Defense Contract Management Agency Contracting Officer Actions on Reported DoD Contractor Estimating System Deficiencies," June 29, 2015

We evaluated whether DCMA contracting officers took timely and effective actions on 18 DoD contractor estimating system deficiencies reported by DCAA. For 17 reports, DCMA contracting officer actions did not comply with the DFARS requirements for estimating system deficiencies.

Appendix B

This appendix identifies which of the three findings that apply to each selected DCAA audit report finding.

Table 1. Findings by DCAA Audit Report

	DCAA Report No.	Responsible DoD Component	Finding A	Finding B	Finding C
1	1281-2007J10100015 1281-2008J10100027 1281-2009J10100029	DCMA	X	X	X
2	1791-2009A10100005	DCMA			X
3	2161-2012P10100012	DCMA		X	X
4	2331-2011T10100001	DCMA			X
5	2421-2009I10100001	DCMA		X	X
6	2501-2010C10100006 2501-2011C10100017*	DCMA			X
7	2501-2010C10100005 2501-2011C10100006*	DCMA		X	X
8	2721-2011F10100001	DCMA		X	X
9	2801-2013G10100001	DCMA			X
10	2801-2011G10100001	DCMA			
11	2801-2012G10100001	DCMA			
12	3171-2011T10100001	DCMA		X	X
13	3171-2010T10100005 3171-2011T10100003*	DCMA		X	X
14	6141-2006W10100009 6141-2007W10100019*	NAVSUP			X
15	6161-2009G10100002	DCMA		X	X
16	6161-2009G10100035	DCMA		X	X
17	6171-2010E10100002	DCMA		X	
18	6341-2009A10100044	DCMA	X	X	X
19	6341-2010L10100001	DCMA			X
20	6431-2008C10100029 6431-2009C10100039*	DCMA		X	X
21	9711-2010A10100012	DCMA		X	X

Source: DoD OIG prepared based on DCMA and NAVSUP data and the findings in this report.

*Represents a DCAA multi-year audit report, which is counted as one report in our sample.

Appendix C

This appendix identifies the indirect cost rate agreements associated with each audit report that had missing elements, as described in Finding B.

Table 2. Indirect Cost Rate Agreements with Missing Elements

	DCAA Report No.	Missing Elements of the Indirect Cost Rate Agreement		
		Indirect Allocation Base Description	Indirect Rate Time Period	Affected Contracts
1	1281-2007J10100015 1281-2008J10100027 1281-2009J10100029			X
2	2161-2012P10100012			X
3	2501-2010C10100005 2501-2011C10100006	X		
4	2721-2011F10100001	X		X
5	3171-2010T10100005 3171-2011T10100003	X		
6	3171-2011T10100001	X		
7	6161-2009G10100002	X		
8	6161-2009G10100035	X		
9	6171-2010E10100002	X		X
10	6341-2009A10100044	X	X	X
11	9711-2010A10100012	X		
	Total	9	1	5

Source: DoD OIG based on DCMA data.

Appendix D

This appendix lists the DCAA audit reports that contracting officers did not resolve or disposition within the required timeframes, as described in Finding C.

Table 3. Actions Exceeding the Resolution or Disposition Timeframe

	DCAA Report No.	Audit Report Date	Months Past The 6-Month Resolution Timeframe	Months Past The Timeframe
1	1281-2007J10100015 1281-2008J10100027 1281-2009J10100029	9/30/2016	6	0
2	2161-2012P10100012	9/1/2016	6	0
3	2501-2010C10100006 2501-2011C10100017	8/30/2016	5	0
4	2501-2010C10100005, 2501-2011C10100006	9/7/2016	5	0
5	3171-2011T10100001	7/12/2016	9	6
6	3171-2011T10100003	7/12/2016	9	6
7	6141-2006W10100009 6141-2007W10100019	10/10/2013	16	25
8	6341-2009A10100044	4/26/2016	12	6
9	6341-2010L10100001	5/6/2016	2	1
10	9711-2010A10100012	4/25/2016	11	5
	Average for those Exceeding the Timeframe		8	8

Source: DoD OIG based on DCMA and NAVSUP data.

Appendix E

This appendix identifies the CAFU records that contained inaccurate data fields.

Table 4. CAFU Accuracy Errors by DCAA Audit Report

	CAFU Record No.	Inaccurate Data Fields			
		Questioned Cost	Questioned Cost Sustained	Resolution Date	Disposition Date
1	1281-2007J10100015 1281-2008J10100027 1281-2009J10100029		X	X	X
2	1791-2009A10100005			X	X
3	2161-2012P10100012	X	X		
4	2331-2011T10100001		X	X	X
5	2421-2009I10100001		X	X	X
6	2501-2010C10100006 2501-2011C10100017		X		
7	2501-2010C10100005 2501-2011C10100006	X	X		
8	2721-2011F10100001	X			
9	2801-2013G10100001	X			
10	3171-2011T10100001	X			
11	3171-2010T10100005			X	
12	6141-2006W10100009 6141-2007W10100019			X	
13	6161-2009G10100002				X
14	6161-2009G10100035		X		X
15	6431-2008C10100029 6431-2009C10100039	X	X		
	Total	6	8	6	6

Source: DoD OIG based on DCMA and NAVSUP data.

Management Comments

Defense Contract Management Agency Director



DEFENSE CONTRACT MANAGEMENT AGENCY

3901 A. AVENUE, BUILDING 10500
FORT LEE, VIRGINIA 23801-1809

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL,
FOLLOWUP AND QUALITY ASSURNANCE DIVISION

SUBJECT: DCMA Management Comments for DoDIG Draft Report, "Evaluation of Contracting Officer Actions on Defense Contract Audit Agency Reports That Disclaim an Opinion" (Project No. D2018-DAPOCF-0169.000)

DCMA's initial response to the subject draft report on September 27, 2019 was a non-concur with Recommendation A.1 and concur with Recommendation A.2.

Subsequent to the initial response being received by the DoDIG, the DoDIG requested a tele-conference. Therefore, on October 10, 2019, a tele-conference between the DoDIG, DCMA-AQC, DCMA-DM, and DCMA Philadelphia took place to discuss the particular findings and supporting documentation from the Contract Management Office (CMO). At this point, DCMA is prepared to revise the response and concur with Recommendation A.1 stating that the basis of the changed determination is that DCMA will continue evaluating both supporting documentation and steps the CMO took to disposition the audit.

TAB A is the DCMA revised response concurring with both Recommendations A.1 and A.2.

The point of contact for this response is [REDACTED]


David H. Lewis
VADM, USN
Director

Attachment(s):

TAB A. DCMA Revised Response to D2018-DAPOCF-0169.000

Link(s):

None

Defense Contract Management Agency Director (cont'd)

DCMA Management Comments for DoDIG Draft Report, "Evaluation of Contracting Officer Actions on Defense Contract Audit Agency Reports That Disclaim an Opinion" (Project No. D2018-DAPOCF-0169.000)

Recommendation A.1

We recommend that the Director of the Defense Contract Management Agency require the contracting officers to:

- a. Determine if any of the \$219 million in questioned costs reported by Defense Contract Audit Agency in Report Nos. 6341-2009A10100044 and 1281-2007J10100015 are not allowable according to Federal Acquisition Regulation Part 31, "Contracts with Commercial Organizations."
- b. Take steps to recoup any portion of the \$219 million that is not allowed on Government contracts.
- c. Review the actions of the contracting officers on Report Nos. 6341-2009A10100044 and 1281-2007J10100015 to determine whether management action is necessary to hold those individuals accountable.

DCMA Comments: Concur.

The DCMA Director agrees with the DoDIG's recommendation to initiate a review of the contracting officers' decision process for not sustaining the questioned costs in DCAA audit numbers 6341-2009A10100044 and 1281-2007J10100015. The review will address the possibility of the contractor receiving reimbursement of cost not allowed on Government contracts and the appropriateness of the contracting officers' actions in not sustaining the \$219 million in questioned costs.

Recommendation A.2

We recommend that the Director of the Defense Contract Management Agency require that the contracting officer who took action on Audit Report No. 6341-2009A10100044 complete the Contract Management—Contract Administration and Pricing 210, "Contract Audit Follow-up," training course.

DCMA Comments: Concur.

The DCMA Contracts Executive Director issued tasking memorandum DCMA 19-157 on May 13, 2019 with a new training requirement for 1102 personnel in the positions of contract administrator, price/cost analyst, cost monitor, administrative contracting officer (ACO), divisional ACO (DACO), corporate ACO (CACO), and contracting manager/supervisor. The memorandum requires all 1102 personnel to complete the College of Contract Management (CCM) Contract Management Course (CMC) 210, "Contract Audit Follow-Up" by June 30, 2019. By June 30, 2019, 95% of the DCMA contracting personnel completed CMC 210. As of August 31, 2019, the course completion rate is at 98%. The ACO who dispositioned the subject audit report, Major Peter Yoon (U.S. Army), is no longer with the Agency. DCMA considers the actions taken sufficient for the DoDIG to close Recommendation A.2.

Commander, Naval Supply Systems Command



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

9/26/19

MEMORANDUM FOR DEPARTMENT OF DEFENSE - INSPECTOR GENERAL
ALEXANDRIA, VIRGINIA

SUBJECT: Department Of Defense Inspector General (DODIG) Draft Report
Evaluation of Contracting Officer Actions on Defense Contract Audit
Agency Reports that Disclaim an Opinion (Project No. D2018-DAP0CF-
0169.000)

The Department of the Navy (DON) hereby endorses and forwards the attached response to the subject draft report. The Commander, Naval Supply Systems Command's response addresses the recommendation contained in the subject draft report. The DON response should be incorporated into the final DODIG report.

If you have any questions pertaining to this memo or its attachments, please refer them to [REDACTED]

CAPT Nick Russo, SC, USN
Chief of Staff
Deputy Assistant Secretary of the Navy
(Acquisition and Procurement)

Attachments:
As stated

Copy to:
NAVIG
NAVSUP IG

Commander, Naval Supply Systems Command (cont'd)

DoDIG Draft Audit Report D2018-0169, "Evaluation of Contracting Officer Actions on Defense Contract Audit Agency Reports that Disclaim an Opinion" dated 30 August 2019

Finding C:

DCMA and NAVSUP Contracting Officer Actions Were Untimely or Inaccurately Recorded in the Contract Audit Follow-up (CAFU) system, as required by DoD Instruction 7640.02. Specifically:

- for 10 audit reports, nine DCMA contracting officers and one NAVSUP contracting officer did not complete their actions within the 6-month resolution or 12-month disposition timeframes required by the DoD Instruction; and
- for 15 audit reports, 14 DCMA contracting officers and one NAVSUP contracting officer entered inaccurate information in the CAFU system.

Recommendation C:

DoDIG recommends that the Commander of the Naval Supply Systems Command provide contracting officers with training on the DoD Instruction 7640.02 requirements to:

- document, on a monthly basis, the cause for delays in resolving and dispositioning audit reports and the actions taken to achieve resolution or disposition, and
- report accurate data in the CAFU system.

NAVSUP Comments at 26 SEP 2019:

NAVSUP has been working to provide more timely and accurate input to the CAFU site for our 7 audit actions. Training will be provided to NAVSUP CAFU users to address the requirements to:

- document, on a monthly basis, the cause for delays in resolving and dispositioning audit reports and the actions taken to achieve resolution or disposition, and
- report accurate data in the CAFU system.

NAVSUP Headquarter anticipate completing this training for its current CAFU users by 3/31/20.

Attachment (1)

Acronyms and Abbreviations

ASBCA	Armed Services Board of Contract Appeals
CAFU	Contract Audit Follow-up
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
FAR	Federal Acquisition Regulation
NAVSUP	Naval Supply Systems Command

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U.S. DEPARTMENT OF DEFENSE

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

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