



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

IMMEDIATE POLICY CHANGE

Contract Audit Follow Up

Contracts Directorate
OPR: DCMA-AQ

DCMA-INST 126 (IPC-1)
February 11, 2016

1. **POLICY.** This Immediate Policy Change (IPC) implements changes to DCMA-INST 126, "Contract Audit Follow Up," August 20, 2014.
2. **PURPOSE.** This IPC incorporates changes in the contract audit follow up process based on revisions made to DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," dated April 15, 2015.
3. **APPLICABILITY.** This IPC applies to all DCMA activities unless higher-level regulations, policy, guidance or agreements take precedence.

4. NEW GUIDANCE.

- a. Delete:

~~5. PLAS CODE:~~

- ~~a. Process: 052—Contract Follow Up.~~
- ~~b. Programs: ACAT/Other Customers (when applicable)~~
- ~~c. Other National; Training and Travel; Local Programs (when applicable)~~

- b. Add:

5. DAI CODE: D5103

- c. Change Table of Contents page as follows:

- ~~• Table 1. Reportable Types of Contract Audits~~
- ~~• Table 2. Reportable Audits if Questioned Cost or Cost Avoidance is \geq \$100,000~~
- ~~• Table 3. Non-Reportable Types of Contract Audits~~
- ~~• Appendix C Matrix of Trackable/Non-Reportable Audits and DCAA Activity Codes~~

- d. Change Reference page as follows:

(d) DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," ~~August 22, 2008~~
April 15, 2015

e. Paragraph 1.1.5. is changed to read:

1.1.5 The ACO shall resolve all audits within 6 months of the audit report issuance date and shall disposition all audits within 12 months of the audit report issuance date in accordance with this Instruction, *unless another regulation or policy provides for a shorter timeframe.*

f. Paragraph 2.5.3. is changed to read:

2.5.3. Resolve and disposition audit findings in a timely and effective manner, including the assessment of penalties and interest. Reportable audit reports shall be resolved within 6 months of the audit report issuance date and dispositioned within 12 months of report issuance, *unless another regulation or policy provides for a shorter timeframe.* There are no time requirements for resolution of non-reportable audits; however, non-reportable audit records ~~shall~~ *should* be dispositioned within 12 months of report issuance.

g. Paragraph 3.3.1 is changed to read:

3.3.1. Reportable audits ~~include the types of contract audits shown in Table 1 if they include findings and recommendations; are all contract audit reports that include questioned costs or recommendations and require contracting officer action, except for those involving:~~

- *Contractor estimates of future costs (21000, 22000, 23000)*
- *Agreed-upon procedures (17900 audits titled as Agreed-upon Procedures)*
- *Nonaudit services (results will not be in an audit report format and do not belong in the CAFU eTool. Examples are Low Risk Memorandums, Evaluation of Final Vouchers, Provisional Billing Rates, and reviews of specific cost elements)*

h. Delete Table 1. Reportable Types of Contract Audits

i. Delete paragraph 3.3.2. in its entirety

j. Delete Table 2. Reportable Audits if Questioned Cost or Cost Avoidance is \geq \$100,000

k. Paragraph 3.4.1 is changed to read:

3.4.1. Non-reportable audits are audits the DoD IG does not report on in the Semi-Annual Report to Congress. Non-reportable audits ~~with questioned costs or negative findings are still required to be dispositioned by the ACO in accordance with FAR and DFARS; are those reports covering agreed-upon procedures and audits of contractor estimates of future costs. Products resulting from nonaudit services are not audit reports and do not belong in the CAFU eTool.~~

l. Delete paragraph 3.4.2. in its entirety

m. Delete Table 3. Non-Reportable Types of Contract Audits

- n. Delete paragraph 3.4.3. in its entirety
- o. Paragraph 3.6.7.2.2. is changed to read:

3.6.7.2.2. Disclosure Statement Audits. For Disclosure Statement audits, the audit is considered resolved when the contracting officer has determined and documented an action plan for addressing the audit findings in an MFR, and obtained management review and concurrence. The scope of the audit and audit findings will dictate the necessary action. See FAR 30.202 – Disclosure Requirements (Reference (f)) for guidance relating to Disclosure Statements. ~~Initial and revised Disclosure Statements are logged as non-reportable by the system (see paragraphs 3.3. and 3.4.; Table 1 and Table 3, respectively) and for DoD IG reporting purposes, but current DCMA policy is to treat them as reportable in every other respect: time requirements, documentation and review, due to their importance, and time sensitivity.~~

- p. Paragraph 3.7.1 is changed to read:

3.7.1. The ACO shall record a “Resolution Target Date” and an “Actual Resolution Date” within the CAFU record for all non-reportable audits that have questioned costs or negative findings. Resolution dates are required within the CAFU eTool record for the subsequent entry of disposition dates. Higher-level regulations, policy, guidance, agreements, and/or DCMA subject matter instructions, particularly timing requirements, should always be reviewed in conjunction with this Instruction (e.g., FAR 15.406-1 requires a PNOM). Otherwise, this Instruction does not establish or require any formal timing requirements, procedures for documentation, or management review for resolving non-reportable audits. ~~with the exception of CAS Disclosure Statement audits.~~ (See paragraphs 3.3.1. ~~Table 1; 3.4.2. Table 3;~~ and 3.6.7.2.) Additional requirements, procedures, and documentation are at the discretion of the directorate. Non-reportable audits are not included in the Agency performance metrics and are not included in the DoD IG Semi-Annual Report to Congress. However, the ACO shall disposition all non-reportable audits with questioned costs or negative findings and shall forward a copy of the PNM, MFR, or other documentation on the disposition of the audit, to DCAA (FAR 15.406-3, FAR 15.407-1(d), FAR 30.606, FAR 49.110, FAR 30.605, etc. (Reference (f))). See paragraph 3.10. regarding the disposition of non-reportable audits.

- q. Paragraph 3.9.4.2 is changed to read:

3.9.4.2. The ACO issues a final determination/decision pursuant to FAR Subpart 33.2— Disputes and Appeals (Reference (f)). ***If the contractor appeals to the Armed Services Board of Contract Appeals (ASBCA) within and the 90-day time limit for appeal to the Armed Services Board of Contract Appeals (ASBCA) has elapsed without contractor appeal following the final determination/decision, the audit record shall be reopened and put into deferred status-litigation.*** If the contractor subsequently appeals to the U.S. Court of Federal Claims (CoFC) within the 1-year limitation, the audit record shall be reopened and put into deferred status - litigation. ***The Contract Disputes Resolution Center (CDRC) attorney will provide the ACO written notification of the appeal and include the docket number. The ACO shall then reopen the CAFU audit file and update the status to deferred – litigation and include the docket number.***

r. Paragraph 3.9.7. is changed to read:

3.9.7. Indirect Rates (Final Overhead). The ACO shall follow the guidance in DCMA-INST 125, “Final Overhead Rates” (Reference (n)). The indirect rate or incurred cost audit is dispositioned when the ACO negotiates a settlement covering all audit issues with the contractor, including the assessment of penalties and interest (see paragraphs 3.9.7.4. and 3.11.), and executes a signed indirect rate agreement. An indirect rate agreement cannot be signed until all corporate and home office cost allocations have been settled, if applicable. (Exception: ACO and DCAA agree and document the corporate or home office allocations will not impact the rates.) ~~If penalties are assessed, the ACO shall wait 90 days after issuing the assessment/final determination before closing the record in the CAFU system. (See paragraphs 3.9.7.4. and 3.11.2.)~~

s. Paragraph 3.9.7.4. is changed to read:

3.9.7.4. Penalties. A template for a COFD and Demand for Payment of Debt for penalties on expressly unallowable costs is provided in the Tools section of the Policy Resource Web page of this Instruction. ~~The DoDI 7640.02 (Reference (d)) states a record is considered dispositioned when the contracting officer issues a final determination pursuant to the disputes clause, and 90 days elapse without contractor appeal to the ASBCA. FAR 42.709-3, Assessing the Penalty (Reference (f)) states the letter shall state the determination is a final decision under the Disputes clause of the contract. Accordingly, the ACO shall wait 90 days after issuing a penalty assessment, before closing the record in the CAFU system (just like COFDs on CAS noncompliances), but sooner if the contractor remits payment prior to the 90 day lapse. (See paragraph 3.11.2.1.)~~

t. Paragraph 3.9.8.2. is changed to read:

3.9.8.2. CAS Noncompliances. For CAS noncompliance audits, the audit is dispositioned when the contracting officer issues a written determination of compliance or noncompliance to the contractor, and ~~demand for payment, if applicable,~~ notifies DCAA of the determination and the basis for the determination in accordance with FAR 30.605(b)(3) (Reference (f)). ~~If the contractor appeals to the ASBCA within , and the 90-day time limit for appeal to the ASBCA has elapsed without contractor appeal subsequent to the COFD/ Determination date, the audit record shall be re-opened in the CAFU eTool and placed in a deferred status-litigation.~~ If the contractor appeals to the CoFC within 12 months after determination, the audit record must be re-opened in a deferred status in the CAFU eTool record. A template for a COFD and Demand for Payment of Debt is provided on the Policy Resource Web page of this Instruction. ~~The Contract Disputes Resolution Center (CDRC) attorney will provide the ACO written notification of the appeal and include the docket number. The ACO shall then reopen the CAFU audit file and update the status to deferred – litigation and include the docket number.~~

u. Paragraph 3.11.1. is changed to read:

3.11.1. Questioned Costs. ~~Questioned costs are the DCAA reported amount of audit exception, potential cost avoidance, or recommended price adjustment. Questioned costs sustained represent the amount the contractor must not charge to the government. Updated~~

questioned costs result from any adjustments made by the contracting officer to the originally questioned costs. Questioned costs sustained must not exceed the DCAA reported questioned costs or updated questioned costs and will not include any amounts for penalties or interest assessed. The ACO shall promptly and accurately report questioned costs sustained in conjunction with the disposition of reportable and non-reportable audits. The ACO shall report the following questioned costs sustained amounts in the CAFU system/eTool *without adjustment for commercial business or government participation (see Glossary).*

v. Paragraph 3.11.2.1. is changed to read:

3.11.2.1. The ACO shall assess penalties and interest (or document a waiver) in accordance with part FAR 42.709 (Reference (f)) if the contracting officer determines a contractor included costs that are expressly unallowable, or previously determined to be unallowable, in its final indirect cost rate proposal. The amount of assessed penalties shall be reported separately from the reported questioned costs sustained in the CAFU system/eTool. A template for a COFD and Demand for Payment of Debt for penalties on expressly unallowable costs is provided in the Tools section of the Policy Resource Web page of this Instruction. The DoDI 7640.02 (Reference (d)) states a record is considered dispositioned when the contracting officer issues a final determination pursuant to the disputes clause, ~~and 90 days elapse without contractor appeal to the ASBCA.~~ FAR 42.709, Assessing the Penalty (Reference (f)), states the assessment letter shall state the determination is a final decision under the Disputes clause of the contract. ~~Accordingly, the ACO shall wait 90 days after issuing a penalty assessment, before closing the record in the CAFU system.~~ *The Contract Disputes Resolution Center (CDRC) attorney will provide the ACO written notification of the appeal and include the docket number. The ACO shall then reopen the CAFU audit file and update the status to deferred – litigation and include the docket number.*

w. Appendix B is modified as follows:

Matrix of CAFU Audit Type Codes and DCAA Activity Codes

CAFU CODE	AUDIT TYPE	ACTIVITY CODES
B	Accounting and Management System Audits (includes Estimating System Surveys) <i>Business Systems Audits</i>	11010, 11020, 11050, 11060, 11070, 11090, 11510, 12030, 12500, 13010 , 13020, 14980, 17740 (post-award), 17741, 24010, 24020, 24090, 26000 (some 19100*)
C	Claims and Equitable Adjustments	17200
D	Post-award Audits	42000, 42097, 42098
E	CAS Noncompliance and Cost Impact Statement Audits	<i>19100</i> , 19200, <i>194XX</i> , 19500 (some <i>19100*</i>)

F	Operation Audits and Operations Audits Follow-up	10501, 10502, 10503, 10601
G	Incurred Cost and Settlement of Final Indirect Cost Rates	10100, 10110, 10180, 17800, 17900, 17920
H	Contractor Insurance and Pensions Audits <i>Preaward Contract Audits</i>	DCMA only 17740
I	Final Pricing <i>Other</i>	Reserved
J	Terminations	17100
K	Earned Value Management System Audits	17750, 17760, 17770
Ø	Other	Often used for Non-reportable, but not exclusively

APPENDIX B

Matrix of CAFU Audit Type Codes and DCAA Activity Codes

B.1. “B” CAFU Audit Type codes are reportable if audit opinion cites the system as inadequate (*significant deficiencies*). ~~Except for 24020 and 24090. Post award 17740 is reportable, but pre-award survey 17740 is not reportable. Estimating system 24010 (with internal control assignment types 4 = flash report or 2 = follow up) are reportable.~~

B.2. “C”, “F”, “G”, “I”, and “J” CAFU codes are reportable if total exception dollars are greater than or equal to \$100,000 *if audit issuance date prior to October 1, 2015 or \$1 if audit issuance date is 1 October, 2015 or later.*

B.3. ~~“D” and “E”~~- *19100 and 194XX are reportable if CAS noncompliance. All 19200 audits are reportable. (19500 only) CAFU codes* are reportable if total exception dollars are greater than zero.

B.4. ~~All 19200 audits are reportable.~~ *“H” 17740 is reportable if audit opinion cites the system is not acceptable.*

~~B.5. Some DCAA auditors code 19100s as type B audits, some DCAA auditors code them as type E audits. Technically, both types are currently considered correct.~~

B.6. “K” CAFU codes are reportable if audit contains conditions and recommendations.

- x. Delete Appendix C in its entirety.
- y. Add to Glossary Definitions the following:

Government Participation. *The amount or percentage of total contractor dollars/costs/sales allocated to Government Contracts. Example: A contractor's total indirect costs including both government and commercial business totals \$100, the contractor's allocation of indirect cost is 60% Commercial and 40% Government. The government participation would be \$40 or 40%.*

z. Change the Glossary Definitions for the following to read:

Non-Reportable Audits. Audits covering ~~pre-award proposals; forward pricing labor, overhead, and other advance rate proposals; progress payments; pre-award surveys; proposals for change orders or modifications; assist audits; contract audit closing statements; auditor-determined final indirect rates where the auditor and contractor agree on the questioned costs and DCAA does not identify questioned costs subject to penalty; and any other audit reports not specifically identified as reportable.~~ *agreed-upon procedures or audits of contractor estimates of future costs. Products resulting from nonaudit services are not audit reports and do not belong in the CAFU eTool.*

Questioned Costs. The amount of audit exception, potential cost avoidance, or recommended price adjustment in the audit report including:

- An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other document governing the expenditure of funds.
- An auditor finding that at the time of the audit, the cost is not supported by adequate documentation.
- An auditor finding or determination that the intended purpose of a particular expenditure of funds is unnecessary or unreasonable.

Within the contract audit follow-up system (CAFU etool), the questioned costs are unadjusted for government participation.

Questioned Costs Sustained. The total questioned amount that shall not be charged to the Government. The sustained cost amount includes the questioned amounts that are agreed to by the contractor during the course of the audit. ~~, and those resulting from the COFD to disallow such costs and ascertain a government claim for them. included in a COFD disallowing such costs and asserting a government claim for recovery of such costs.~~ *It also includes those questioned costs that are disallowed in a COFD. Contracting officers report costs sustained, penalties, and interest separately in the CAFU etool under the audit report that cites the questioned costs. Questioned costs sustained must not exceed the DCAA-reported questioned costs or updated questioned costs and should not include any amounts for penalties or interest assessed. No adjustment for commercial business or government participation should be included when reporting questioned costs sustained in the CAFU etool.*

Reportable Audit. Certain audits that are subject to the reporting requirements by the DoD OIG. *All contract audit reports that include questioned costs or recommendations and require contracting officer action are reportable (to include those with audit determined rates and penalties are recommended), except for those involving:*

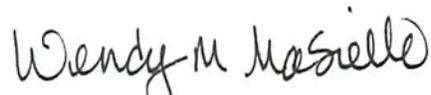
February 11, 2016

- *Contractor estimates of future costs (21000, 22000, 23000)*
- *Agreed-upon procedures (17900 audits titled as Agreed-upon Procedures)*
- *Nonaudit services (will not be in an audit report format and do not belong in the CAFU eTool. Examples are Low Risk Memorandums, Evaluation of Final Vouchers, Provisional Billing Rates, and reviews of specific cost elements)*

In addition, all audit reports that revise or supplement a previously issued reportable audit report are reportable, regardless of whether the report includes findings, recommendations, questioned costs or potential cost avoidance.

5. RELEASABILITY – UNLIMITED. This IPC is approved for public release and is located on DCMA’s Internet Web site.

6. EFFECTIVE DATE. By order of the Director, DCMA, this IPC is effective immediately and shall remain in effect until rescinded, superseded, or incorporated in a DCMA policy, whichever is sooner.



Wendy M. Masiello, Lt Gen, USAF
Director



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

INSTRUCTION

Contract Audit Follow Up

Contracts Directorate
OPR: DCMA-AQ

DCMA-INST 126
August 22, 2013

Validated Current with Administrative Changes, August 20, 2014

1. REISSUANCE AND PURPOSE. This Instruction:

a. Reissues DCMA Instruction (DCMA-INST) 126, "Contract Audit Follow Up" (Reference (a)) in accordance with the guidance in DCMA-INST 501, "Policy Program" (Reference (b)).

b. Updates policies and responsibilities for Contract Audit Follow-Up (CAFU) to ensure timely and appropriate resolution and disposition of audit findings.

c. Is established in compliance with DoD Directive (DoDD) 5105.64, "Defense Contract Management Agency (DCMA)" (Reference (c)) and DoD Instruction (DoDI) 7640.02, "Policy for Follow-up on Contract Audit Reports" (Reference (d)).

2. APPLICABILITY. This Instruction applies to all DCMA activities unless higher-level regulations, policy, guidance, or agreements take precedence.

3. MANAGERS' INTERNAL CONTROL PROGRAM. This Instruction contains managers' internal control provisions subject to evaluation and testing as required by DCMA-INST 710, "Managers' Internal Control Program" (Reference (e)). The process flowchart is located at Appendix A.

4. RELEASABILITY – UNLIMITED. This Instruction is approved for public release.

5. PLAS CODE.

a. Process: 052 – Contract Audit Follow-Up.

b. Programs: ACAT/Other Customers (when applicable).

c. Other National; Training and Travel; Local Programs (when applicable).

6. POLICY RESOURCE WEB PAGE. <https://home.dcma.mil/policy/126r>

Validated Current with Administrative Changes, August 20, 2014

7. EFFECTIVE DATE. By order of the Director, DCMA, this Instruction is effective immediately.



Timothy P. Callahan
Executive Director
Contracts

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REFERENCES

- (a) DCMA-INST 126, "Contract Audit Follow Up," December 2011 (hereby canceled)
- (b) DCMA-INST 501, "Policy *Publications* Program," *May 12, 2014*
- (c) DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013
- (d) DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," August 22, 2008
- (e) DCMA-INST 710, "Managers' Internal Control Program," *April 21, 2014*
- (f) Federal Acquisition Regulation (FAR)
- (g) Contract Audit Follow-Up User Manual 3.5 (eTool)
- (h) DCMA-INST 131, "Contractor Business Systems," *November 6, 2013*
- (i) DCMA-INST 134, "Boards of Review," *November 4, 2013*
- (j) Section 7103(a)(4)(A) of title 41, United States Code, "Contract Disputes Act of 1978"
- (k) DCMA-INST 905, "Contract Claims and Disputes," *December 17, 2013*
- (l) Department of Defense Federal Acquisition Regulation Supplement (DFARS)
- (m) DCMA-INST 108, "Cost Accounting Standards (CAS) Administration," May 20, 2013
- (n) DCMA-INST 125, "Final Overhead Rates," *April 21, 2014*
- (o) DCMA-INST 128, "Disallowance of Costs," *December 4, 2013*
- (p) Section 2306a(e) of title 10, United States Code, "Price Reductions for Defective Cost or Pricing Data"
- (q) DCMA-INST 809, "Records Management," May 2011

CHAPTER 1

POLICY

1.1. CONTRACT AUDIT FOLLOW-UP (CAFU) REPORTING REQUIREMENTS.

1.1.1. In accordance with DoDI 7640.02 (Reference (d)), it is DCMA policy to maintain a system that records the actions taken to resolve and disposition reportable (defined in paragraph 3.3.) Defense Contract Audit Agency (DCAA) contract audit reports in a timely manner, referred to as the CAFU system. The CAFU system shall include a record for each open and closed reportable audit. DCMA policy is based upon the DoDI 7640.02 (Reference (d)) and for all intents and purposes incorporates its requirements and terms in its entirety. The DCMA automated CAFU system and eTool is also used by each of the military services and TRICARE.

1.1.2. DCMA policy expands upon the DoDI 7640.02 (Reference (d)) to require administrative contracting officers (ACO) to maintain a current record for each open and closed non-reportable audit report (defined in paragraph 3.4.) where there are questioned costs or negative audit findings. Also, additional guidance on selected types of audits and common resolution/disposition actions have been addressed within this Instruction, but it is certainly not exhaustive of all conditions described in audits and all circumstances. Subject matter references (Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), other DCMA Instructions, etc.) should always be reviewed in conjunction with the guidance herein.

1.1.3. DCMA personnel shall not delete audits from the CAFU system unless coordinated with a headquarters (HQ)-level CAFU monitor (see paragraph 2.6.).

1.1.4. The automated DCMA CAFU system shall serve as the source of contract audit follow-up information provided to/accessed by the DoD Office of the Inspector General (DoD IG) for a Semiannual Report to Congress. DCMA shall provide to the DoD IG, or make available (through the automated CAFU system), a report on the status of open and closed reportable audits within 3 business days following the semiannual reporting periods ending March 31 and September 30 of each year, including the information and record details set forth in Chapter 3 of this Instruction. The non-reportable audits are not included in the DoD IG semiannual report to Congress.

1.1.5. The ACO shall resolve all audits within 6 months of the audit report issuance date and shall disposition all audits within 12 months of the audit report issuance date in accordance with this Instruction.

1.1.6. Furthermore, in accordance with DoDI 7640.02 (Reference (d)), DCMA personnel responsible for the resolution and disposition of audits, and the CAFU system shall:

1.1.6.1. Verify the DCAA once a month import file of reportable audit records is incorporated into the DCMA CAFU system. Except for audits received from DCAA Field Detachment, manual entry of records upon receipt of the audit report during the month is

considered unnecessary and shall not be implemented as a standard practice by ACOs or organizational components. DCAA Field Detachment sends a list of its audits to DCMA Special Programs, and DCMA Special Programs redistributes the list to the cognizant organizational component (i.e., Operations, Cost and Pricing Center, Special Programs) for manual entry into the CAFU system by the components.

1.1.6.2. Consider all contract audit findings and recommendations in developing pre-negotiation and post-negotiation positions, if applicable, including the assessment of recommended penalties for expressly unallowable costs and any interest, FAR 42.709 (Reference (f)).

1.1.6.3. Monitor the timeliness and appropriateness of resolution and disposition of contract audit reports, including the assessment of penalties and interest.

1.1.6.4. Address the timeliness and effectiveness in resolving and dispositioning audit findings and recommendations in appraisals and, where appropriate, performance standards for acquisition officials involved in contract audit follow-up actions.

1.1.6.5. Establish and implement procedures for maintaining and promptly updating records regarding the status of all reportable contract audit reports.

1.1.6.6. Retain audit follow-up records for a minimum of 6 years and 3 months after payment of the last contract affected by the audit (see paragraph 3.13.).

1.1.6.7. Require the ACO to provide a copy of the post-negotiation memorandum or other documentation to the DCAA auditor and other affected Government offices, as applicable.

1.1.6.8. Promptly update the status of actions taken to resolve and disposition reportable contract audit reports in the CAFU system to facilitate the reporting responsibilities in paragraph 1.1.4.

1.1.6.9. Ensure DoD Component acquisition personnel are trained in resolving and dispositioning contract audit reports and complying with the contract audit follow-up reporting requirements.

1.2. AUDIT TRACKING REQUIREMENTS. *In accordance with* DoDI 7640.02 (Reference (d)), *it is DCMA policy that* all contract audit reports are to be tracked. ~~and FAR 15.406-3, FAR 15.407-1(d), FAR 30.606, FAR 49.110, and FAR 30.605 (Reference (f)) requires virtually all mandate that audits with questioned costs or negative findings require contracting officer follow-up to DCAA and other impacted Government offices with a Price Negotiation Memorandum (PNM) or other documentation to indicate how the contracting officer dispositioned or used the audit report results.~~ The CAFU system maintains records of reportable and non-reportable audits having questioned costs or negative findings, and the system/database can be used to track all audits at the discretion of the directorate level. Due to Host Nation Agreements with reciprocal audit services performed by non-U.S. Government organizations, the International directorate OCONUS (outside the Continental United States) contract management

Validated Current with Administrative Changes, August 20, 2014

offices (CMO) will follow local Standard Operating Procedures (SOP), but the CAFU system may also be used to track the audit reports if desired.

CHAPTER 2

RESPONSIBILITIES

2.1. DIRECTOR, DCMA. The Director shall:

2.1.1. Designate a top management official to oversee the DCMA CAFU system.

2.1.2. Assure management officials throughout the agency understand the value of the audit process and are responsive to audit findings and recommendations.

2.1.3. Provide names, titles, and telephone numbers of the designated management officials to the DoD IG.

2.1.4. Require periodic internal reviews of the Agency CAFU procedures and performance to determine whether ACOs timely and effectively resolve and disposition audit findings and recommendations, including the assessment of penalties and interest.

2.2. EXECUTIVE DIRECTOR, CONTRACTS. The Executive Director, Contracts shall:

2.2.1. Ensure a system of contract audit follow-up is established and implemented for maintaining records regarding the status of all reportable and non-reportable contract audit reports.

2.2.2. Ensure audit follow-up records are retained for a minimum of 6 years and 3 months after payment of the last contract affected by the contract.

2.2.3. Establish and implement policy and procedures whereby contracting officers shall fully consider all contract audit findings and recommendations in developing the pre-negotiation and post-negotiation positions, if applicable, including the assessment of recommended penalties and interest.

2.3. DIRECTORATE CONTRACTS DIRECTORS, AND DIRECTOR, COST AND PRICING CENTER. The Directors shall:

2.3.1. Monitor component level performance and compliance with CAFU policy and procedures.

2.3.2. Ensure Contracts Directors and the Director of Corporate/Divisional Administrative Contracting Officers (CACO/DACO) Group, are rated on the CAFU Standard Performance Objective as a Contribution to Mission Accomplishment (CTMA). (See paragraph 3.12. Performance Standards.)

**2.4. CMO CONTRACTS DIRECTORS AND DIRECTOR OF CORPORATE/
DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER (CACO/DACO)
GROUP.** The Directors shall:

2.4.1. Oversee the component level contract audit follow-up process for the resolution and disposition of audit reports. Assure management officials within the components understand the significance of the process and are responsive to audit findings and recommendations.

2.4.2. Ensure complete, accurate, and up-to-date records of actions taken to resolve and disposition reportable and non-reportable audit findings and recommendations are maintained.

2.4.3. 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 Standards (CAS) related issues.)

2.4.4. Ensure component personnel are trained in resolving and dispositioning contract audit reports and complying with the contract audit follow-up reporting requirements.

2.4.5. Monitor CAFU performance to determine whether ACOs are resolving and dispositioning audit findings and recommendations in a timely and effective manner, including the assessment of penalties and interest.

2.4.6. Address the timeliness and effectiveness in resolving and dispositioning audit findings and recommendations in appraisals and, where appropriate, performance standards for acquisition officials involved in contract audit follow-up actions.

2.4.7. Ensure CMO Team Leaders/Supervisors, Team Cost and Pricing Center (KD) Supervisors, and ACOs (see paragraph 2.5.) are rated on the CAFU Standard Performance Objective as a Contribution to Mission Accomplishment (CTMA), if applicable. (See paragraph 3.12. Performance Standards.)

**2.5. ADMINISTRATIVE CONTRACTING OFFICER (ACO), DIVISIONAL
ADMINISTRATIVE CONTRACTING OFFICER (DACO), CORPORATE
ADMINISTRATIVE CONTRACTING OFFICER (CACO), (herein and collectively
referred to as ACO).** The ACOs shall:

2.5.1. Ensure all audits assigned to them are properly recorded in the CAFU system and the information, including status and remarks, in the CAFU record is current, accurate, and complete.

2.5.2. Establish and update estimated target dates for resolving and dispositioning each audit.

2.5.3. Resolve and disposition audit findings and recommendations in a timely and effective manner, including the assessment of penalties and interest. Reportable audit reports shall be

resolved within 6 months of report issuance and dispositioned within 12 months of report issuance. There are no time requirements for resolution of non-reportable audits; however, non-reportable audit records shall be dispositioned within 12 months of report issuance.

2.5.4. Fully consider all contract audit findings and recommendations in developing the pre-negotiation and post-negotiation positions. Coordinate with the other Government agencies that have negotiation responsibility over a portion of the findings or recommendations.

2.5.5. Document and promptly update the status of actions taken to resolve and disposition reportable and non-reportable contract audit reports to facilitate the reporting responsibilities within the CAFU system. Remarks shall be updated monthly if the records become overage.

2.5.6. Promptly update the status of audits as Assigned, Planned, Resolved, Dispositioned, Deferred (under litigation or investigation), or Forwarded in the CAFU system.

2.5.7. Report questioned costs, sustained amounts, penalties and interest in the CAFU system.

2.5.8. Provide a copy of the PNM, Contracting Officer's Final Decision (COFD), final determination, memorandum for record (MFR), or other dispositioning documentation, to the DCAA auditor and other affected Government offices, as applicable.

2.6. CAFU MONITORS.

2.6.1. Designated CAFU monitors shall assist the directorates with monitoring, editing/correcting, transferring CAFU records, and generally assisting the workforce with CAFU records. The assignment/appointment of CAFU monitors and further defining of specific component level duties are at the discretion of the directorate based on component workload needs. The assignment of HQ-level or District-level CAFU monitors should be limited and approved by the directorate Contracts Directors or Director of CACO/DACO Group.

2.6.2. HQ CAFU monitors shall oversee the system, serve as subject matter experts about the policies and eTool, coordinate record transfers between DCMA and the military services, and coordinate the resolution of eTool problems.

CHAPTER 3

PROCEDURES

3.1. CAFU SYSTEM/eTOOL.

3.1.1. Personnel Access. DCMA personnel access to the CAFU system and eTool is enabled by supervisory approval within the Internal Web Access Management (IWAM) system. External user (military services, TRICARE, DCAA, DoD IG) access to the CAFU system, eTool and/or reports is enabled by approval through the External Web Access Management (EWAM) system.

3.1.2. CAFU (eTool) User Manual. The Contract Audit Follow-Up User Manual 3.5 (CAFU eTool) (Reference (g)) is available in the Tools section of the Policy Resource Web page of this Instruction.

3.2. DCMA CAFU SYSTEM IMPORT OF DCAA DMIS RECORDS.

3.2.1. The DCAA field offices issue individual audit reports directly to DCMA ACOs. The DCAA HQ sends a monthly electronic summary file of reportable audits as captured by the DCAA Management Information System (DMIS) to DCMA for import into the DCMA CAFU system, generally within the first 3 days of each month. The DMIS and CAFU systems are not linked. At DCMA's request, DCAA also includes all non-reportable audits in the monthly file if the audit report included questioned costs or negative audit findings.

3.2.2. Even though the CAFU system was designed to meet the reporting requirements of the DoDI for reportable audits, the automated CAFU system includes the capability to capture, segregate, and report on information for both reportable and non-reportable audit records. All audits are trackable and all audits with questioned costs or negative findings require disposition by the ACO. Therefore, the CAFU system shall include a record for all audit reports that have questioned costs or negative findings, reportable and non-reportable. This requirement ensures visibility of the audit and serves as a prompt that follow-up action is required, and the audit needs to be dispositioned, even if it is not reportable for DoD IG reporting purposes. The terms reportable and non-reportable refer to DoD IG reporting requirements.

3.2.3. Since the file of CAFU records received from DCAA is only received monthly, there is a timing delay between the date of the audit report and the date the record is imported and captured in the DCMA system. The delay varies depending on when the audit report was issued. If the ACO/CMO/Cost and Pricing Center receives an audit report not included in the subsequent monthly CAFU file import, the ACO may manually input the record in the DCMA CAFU system with the assistance of the organizational CAFU monitor. However, routine manual entry of all records immediately upon receipt of the audit report is considered unnecessary and shall not be implemented as a standard practice by ACOs or organizational components; manual entry increases the likelihood of input errors and negates all of the time saving efficiencies of the automated record import and assignment process established between DCAA and DCMA.

3.2.4. Issues with CAFU records received from DCAA (e.g., errors in report class, audit type, dates, assignment of record to ACO, assignment of record to DCMA, missing audits) shall be elevated to a CAFU monitor at the component or HQ level for assistance. Questions related to the audit or simple verification of data in a record are absolutely permitted, but ACOs and organizational components should not contact DCAA directly about CAFU eTool/ problems unless instructed to do so. CAFU monitors can correct or elevate issues through HQ levels if there is a systemic problem. As previously stated, the DCAA DMIS and DCMA CAFU systems are not linked and our CAFU records are snapshots of information; they are not a live feed, so changes and corrections to a specific record in DCAA's DMIS will not translate to changes in the record in the CAFU system.

3.2.5. Supplemental Audits. Sometimes DCAA issues audit reports that supersede or update a previously issued report. Supplemental audits have the original audit report number and the addition of a -S1, -S2 at the end. If a supplemental audit report is issued by DCAA and a corresponding record is imported to the CAFU system, the system will automatically disposition the original audit and report zero questioned costs on the original record. This is a fully automated process, and no ACO action required on the original audit report. Follow-up audit reports (usually related to systems audits and issued in response to changes or corrective action) have a totally different audit report number, do not have -S1, -S2, etc., tacked to the report number, are not normally considered "superseding" audits, and do not cause an automatic disposition of the previous audit record.

3.2.6. Incurred Costs Audits - Multiple Audits in One CAFU Record. If a CAFU audit record is received that actually includes multiple incurred cost audit reports, and it is clear the reports will require separate negotiation and/or penalty assessment, separate PNM's, etc., the ACO shall coordinate with the organizational CAFU monitor to establish and manually enter separate CAFU records for each audit report number.

3.2.7. Semi-annually, DCAA Field Detachment sends a list of audits to DCMA Special Programs. This list comprises audits applicable to Special Programs, the Cost and Pricing Center, and Operations. The Special Programs Contracts Directorate will provide this list to each organizational component. Manual entry by DCMA is required because DCAA Field Detachment does not enter audits into the CAFU system. The appropriate organizational component shall ensure these audits are manually entered into the CAFU system.

3.3. REPORTABLE AUDITS DEFINED.

3.3.1. Reportable audits include the types of contract audits shown in Table 1 if they include findings and recommendations:

Table 1. Reportable Types of Contract Audits

<ul style="list-style-type: none"> Accounting and management systems audits, including estimating systems, control environment and overall accounting systems, billing systems, business systems, compensation systems, material management and accounting systems, budget and planning systems, labor systems, information technology systems, purchasing systems, and direct and indirect cost systems
<ul style="list-style-type: none"> Accounting and management systems follow-up audits
<ul style="list-style-type: none"> Estimating or other system deficiency reports, including real-time reports (also referred to as “flash” reports). Real-time/flash reports include labor floor checks reports and purchases existence and consumption verification reports
<ul style="list-style-type: none"> Earned value management systems
<ul style="list-style-type: none"> Post-award audits
<ul style="list-style-type: none"> CAS noncompliance reports
<ul style="list-style-type: none"> CAS cost impact statements
<ul style="list-style-type: none"> CAS Disclosure Statements – Initial and Revised (These are logged as non-reportable by the system and for DoD IG reporting purposes, but current DCMA policy is to treat them as reportable in every other respect: time requirements, documentation and management review.)

3.3.2. Reportable audits also include the types of audits shown in Table 2 if the questioned cost or potential cost avoidance is \$100,000 or more:

Table 2. Reportable Audits if Questioned Cost or Cost Avoidance is \geq \$100,000

<ul style="list-style-type: none"> Incurring costs, except for audits of audit-determined indirect rates where the auditor and contractor agree on all questioned costs and the auditor does not identify questioned costs subject to penalty
<ul style="list-style-type: none"> Settlement of indirect cost rates
<ul style="list-style-type: none"> Final pricing submissions
<ul style="list-style-type: none"> Termination settlement proposals
<ul style="list-style-type: none"> Equitable adjustment claims
<ul style="list-style-type: none"> Hardship claims
<ul style="list-style-type: none"> Escalation claims
<ul style="list-style-type: none"> Operations and operations follow-up audits
<ul style="list-style-type: none"> Insurance and pension audits
<ul style="list-style-type: none"> Capital and direct medical and education cost audits
<ul style="list-style-type: none"> Retention incentive pay audits
<ul style="list-style-type: none"> Service Contract Act wage determination reviews

3.3.3. All supplemental audit reports that supersede or supplement a previously issued reportable audit report are reportable, regardless of whether the supplemental report includes findings, recommendation, questioned cost, or potential cost avoidance.

3.3.4. A matrix of CAFU system audit type codes by DCAA activity code (included within digits 10-14 of the audit report number) is available for reference in Appendix B of this Instruction.

3.4. NON-REPORTABLE AUDITS DEFINED.

3.4.1. Non-reportable audits are audits the DoD IG does not report on in the Semi-Annual Report to Congress. Non-reportable audits with questioned costs or negative findings are still required to be dispositioned by the ACO in accordance with FAR and DFARS.

3.4.2. Non-reportable audits include the types of contract audits shown in Table 3.

Table 3. Non-Reportable Types of Contract Audits

<ul style="list-style-type: none"> CAS Disclosure Statements – Initial and Revised (These are logged as non-reportable by the system and for DoD IG reporting purposes, but current DCMA policy is to treat them as reportable in every other respect: time requirements, documentation and management review, due to their importance and time sensitivity.)
<ul style="list-style-type: none"> Audits covering pre-award proposals
<ul style="list-style-type: none"> Forward pricing labor, overhead, and other advance rate proposals
<ul style="list-style-type: none"> Progress payments
<ul style="list-style-type: none"> Pre-award surveys
<ul style="list-style-type: none"> Proposals for change orders or modifications
<ul style="list-style-type: none"> Assist audits
<ul style="list-style-type: none"> Contract audit closing statements
<ul style="list-style-type: none"> Auditor-determined final indirect rates where the auditor and contractor agree on the questioned costs and DCAA does not identify questioned costs subject to penalty
<ul style="list-style-type: none"> Any other audit reports not specifically identified as reportable

3.4.3. A matrix of trackable/non-reportable audit report types by DCAA activity code (included within digits 10-14 of the audit report number) is available for reference at Appendix C of this Instruction.

3.5. VERIFICATION OF INFORMATION IN THE CAFU RECORD – ALL AUDITS.

3.5.1. Upon receipt or entry of a new audit record in the CAFU system, the ACO shall determine the record has been correctly assigned to them. If there are questions about the assignment of the audit record to the ACO's workload, the ACO shall consult with an organizational component or HQ level CAFU monitor.

3.5.2. Upon workload acceptance (see paragraph 3.5.1.) of the assignment, the ACO shall ensure the information listed in Table 4 is current, accurate, and complete in the CAFU system. Some fields can be edited by the ACO, some fields can be corrected by a monitor, and some fields cannot be corrected at all. The following fields cannot be edited or corrected: Audit Number, Audit Type, Audit Issue Date, Audit Received, DCAA Cost Questioned/Avoidance, Questioned Cost Subject to Penalty. Discuss/confirm the error with the DCAA auditor. Since

there will not be an updated record import, make a note in the “Remarks” section stating there is an error and state the correct information. If unable to edit or correct other fields, contact the immediate organizational CAFU monitor for assistance in resolving the problem. A last resort alternative is to print a copy of the existing record and request a HQ-level CAFU monitor coordinate with information technology (IT) to delete the record and refresh the system, after which the record can be manually re-entered with the correct information.

Table 4. CAFU Record Information to be Verified

• Report number
• Report date
• Contractor name and Commercial and Government Entity (CAGE) code
• DoD Activity Address Code (DODAAC)
• Type of Audit Code
• Reportable or Non-reportable audit
• Questioned costs, potential cost avoidance, or recommended price adjustment
• Questioned costs subject to penalty
• Qualifications or unresolved costs (yes or no response)

3.6. RESOLUTION OF REPORTABLE AUDITS.

3.6.1. A reportable audit report is considered to be resolved when the contracting officer has determined and documented an action plan for addressing the audit findings in a pre-negotiation objective memorandum (PNOM) or MFR, and has obtained management review and concurrence (see paragraph 3.6.5.). See paragraph 3.6.7. for additional guidance related to resolution of specific types of audits. The guidance set forth in this Instruction is generally controlling unless another regulation or policy requires additional action or a shorter timeline for a specific matter. Higher-level regulations, policy, guidance, agreements, and DCMA subject matter instructions, particularly timing requirements, should always be reviewed in conjunction with this Instruction.

3.6.2. Time Requirement for Resolution. The ACO shall resolve reportable audits within 6 months of the audit report issuance date unless another regulation or policy provides for an earlier deadline. For example, the requirement to make an initial determination whether to approve/disapprove a contractor’s accounting system within 10 days of receiving the audit or functional specialist report, as set forth by DCMA-INST 131, “Contractor Business Systems” (Reference (h)) should be followed since it requires action prior to the standard 6-month CAFU requirement for resolution. Timely resolution of DCAA audit reports is critical for ensuring the Government promptly recoups reported unallowable costs, improves contractor control systems, and corrects cost accounting practices that do not comply with the cost accounting standards. Audits not resolved within 6 months are considered “overage” for resolution. If an audit report is not resolved within 6 months, the ACO shall document the actions taken to achieve resolution at least monthly in the “Remarks” section of the record in the CAFU system. See additional information regarding remarks in paragraph 3.6.3.5.

3.6.3. Upon receipt of a reportable audit report, and/or upon notification or entry of a reportable audit record in the CAFU system (see paragraph 3.2.), and after verification of the data (see paragraph 3.5.) the ACO shall:

3.6.3.1. Read and review the audit report to gain an initial understanding of the overall effort that will be required to resolve and disposition the audit. Assess the significance of the audit findings relative to the type of audit, and assess the impact of the audit findings and priority of dispositioning the audit relative to other workload.

3.6.3.2. Fully consider all DCAA audit findings and recommendations and obtain any required clarification to ensure an understanding of the auditor's findings and recommendations. Contact the auditor for additional explanation or information, if necessary (recommended).

3.6.3.3. Coordinate with the other Government agencies that have negotiation responsibility over a portion of the findings or recommendations, if applicable.

3.6.3.4. Establish estimated target dates for resolving and dispositioning reportable audits and document the dates in the CAFU eTool record (see CAFU eTool Manual 3.5 (Reference (g)) available in the Tools section of the policy Resource Web page of this Instruction). These dates do not auto-fill in the CAFU eTool record. Enter a date 6 months from the audit issuance date for resolution, and enter a date 12 months beyond the audit issuance date for disposition. Update the estimated "Revised Target Disposition" date as circumstances change and/or more information becomes available, and document the "Remarks" section accordingly.

3.6.3.5. Remarks. The remarks entered in the CAFU record shall summarize the status of actions taken (or planned) to achieve resolution or disposition. Remarks shall be updated monthly if the records become overage (see paragraph 3.6.2.). Remarks shall be entered with the current date at the start of each entry and sequence of dates/events shall read top to bottom. Users are not required to retroactively revise the sequence of remarks entered for records established prior to the date of this Instruction. The remarks are readily available to higher-level managers and the DoD IG in the CAFU Reports. Remarks should be concise; identify specific actions and dates; and show progressive action being taken to move the audit toward resolution and disposition. Use of the term "no change" is acceptable for monthly updates. However, the ACO shall document a reason for no change after 3 months/entries of "no change."

3.6.4. During the Resolution process, the ACO shall:

3.6.4.1. Update the status of reportable audits within the "Remarks" section of the CAFU eTool record (see paragraph 3.6.3.5.). Within the CAFU eTool record, the status of the record progresses from the "Assigned" (receipt or creation of the record) to "Planned" pipeline positions in the record, and then to "Resolved" when the "Actual Resolution Date" is entered in the CAFU eTool. Thereafter, it will progress from "Resolved" to "Dispositioned," and then to the "Forwarded" pipeline positions within the CAFU record as actions are completed and the "Actual Disposition Date" is entered. (See Contract Audit Follow-Up User Manual 3.5 (Reference (g)) available in the Tools section of the Policy Resource Web page of this

Instruction.). ACOs are also encouraged to use the milestone feature of the CAFU eTool for establishing goals and timelines.

3.6.4.2. Decide what position to take regarding the audit findings, whether to agree or disagree with DCAA. The ACO shall fully consider all DCAA audit findings and recommendations including the assessment of penalties and interest and obtain any required clarification to understand the results of audit.

3.6.4.3. Document the decision/resolution of the audit report in a signed and dated PNOM. Indicate agreement or disagreement with each finding and/or recommendation, and document the rationale for any disagreement. When no negotiation is required, document the resolution of the audit in n MFR. If the ACO disagrees with the audit findings and the disagreement is based on an interpretation of a law or regulation, the ACO should consult with the supervisor and assigned legal counsel. The basis/rationale for the disagreement and the results of the consultations shall be documented in the PNOM or MFR. The ACO shall also consult DCMA-INST 134, “Boards of Review” (Reference (i)).

3.6.4.4. Consult with assigned legal counsel if the ACO’s determination/decision has the potential for a claim against the contractor; e.g., CAS related audits. Document the legal basis for the consultation and the results of the review in the contract file. FAR 33.206 (Reference (f)) and the Contracts Disputes Act (CDA) (Reference (j)) provide “each claim by the Federal Government against a contractor relating to a contract shall be submitted within 6 years after accrual of the claim.” See DCMA-INST 905, “Contract Claims and Disputes” (Reference (k)) and FAR 33.2 (Reference (f)) for specific guidance and applicability.

3.6.5. Management Review. The ACO shall obtain management review and concurrence with the PNOM or MFR documenting the action plan for addressing the audit findings, and the letters of initial determination or notice of potential noncompliance, if applicable, from the CMO Contracts Director, and the DACOs/CACOs shall obtain management review and concurrence from the CACO/DACO Team KD Supervisor. **NOTE:** Management review authority cannot be delegated to a level lower than the supervisor. For the CMOs, management review authority for CAS related audits cannot be delegated below the Contracts Director. If the ACO proceeds without concurrence from management, the ACO shall document the rationale for the action in the memorandum supporting the action.

3.6.6. Once an audit is resolved, update the CAFU module in eTools with:

- “Actual Resolution Date”
- “Revised Target Disposition Date”, if necessary
- Updated/Revised Remarks

3.6.7. Specific Audits. Additional resolution guidance is provided for the following types of audits:

3.6.7.1. Systems Audits. The requirements for the resolution of systems audits vary with different types of systems. Higher-level regulations, policy, guidance, agreements, and/or

DCMA subject matter instructions, particularly timing requirements, should always be reviewed in conjunction with this Instruction. The ACO shall follow the guidance in the DCMA subject matter instructions (e.g., Earned Value Management System-Compliance Reviews, Estimating System Reviews, Material Management and Accounting Systems (MMAS), Contract Property Management, Contractor Purchasing System Reviews (CPSR)), DFARS 242.75 for contractor accounting systems (Reference (l)), and DCMA-INST 131 (Reference (h)) for the resolution and disposition of systems audits. In general, a systems audit is considered resolved when the ACO makes an initial determination of whether there are significant deficiencies in the contractor's system, documents the determination in an MFR, notifies the contractor in writing, and requests a response from the contractor. The ACO shall obtain management review and concurrence of the MFR and initial determination letter prior to issuance of a written letter in accordance with paragraphs 3.6.1. and 3.6.5.

3.6.7.2. CAS Related Audits. The ACO shall follow the guidance in DCMA-INST 108, "Cost Accounting Standards (CAS) Administration" (Reference (m)) and FAR Part 30 - Cost Accounting Standards (CAS) Administration (Reference (f)) for the resolution and disposition of CAS related audits and issues.

3.6.7.2.1. CAS Noncompliance Audits. For CAS noncompliance audits, the ACO must either notify DCAA the ACO disagrees with the alleged noncompliance, or issue a written notice of potential noncompliance to the contractor, and provide a copy of the notice to DCAA in accordance with FAR 30.605(b)(1) (Reference (f)). The notice to DCAA or the notice of potential noncompliance to the contractor, and the MFR documenting the rationale for the determination, must be reviewed and concurred with by the CMO Contracts Director or Team KD Supervisor. (**NOTE:** For the CMOs, management review authority cannot be delegated below the Contracts Director level.) The audit status is considered resolved after issuing the aforementioned notices and the "Actual Resolution Date" has been entered in the CAFU eTool record. See FAR 30.605 (Reference (f)) for detailed guidance relating to CAS noncompliances.

3.6.7.2.2. Disclosure Statement Audits. For Disclosure Statement audits, the audit is considered resolved when the contracting officer has determined and documented an action plan for addressing the audit findings in an MFR, and obtained management review and concurrence. The scope of the audit and audit findings will dictate the necessary action. See FAR 30.202 – Disclosure Requirements (Reference (f)) for guidance relating to Disclosure Statements. Initial and revised Disclosure Statements are logged as non-reportable by the system (see paragraphs 3.3. and 3.4.; Table 1 and Table 3, respectively) and for DoD IG reporting purposes, but current DCMA policy is to treat them as reportable in every other respect: time requirements, documentation and review, due to their importance, and time sensitivity.

3.6.7.2.3. Audit Issue Tracking (AIT) eTool. In accordance with DCMA-INST 108 (Reference (m)), Disclosure Statement submissions/accounting practice changes, CAS noncompliance, and cost impact audits shall be input into the AIT eTool. The AIT eTool will be used to track a CAS related issue from notice of the Disclosure Statement submission, accounting practice change, or CAS noncompliance, to the disposition of the cost impact of the change or noncompliance.

3.7. RESOLUTION OF NON-REPORTABLE AUDITS.

3.7.1. The ACO shall record a “Resolution Target Date” and an “Actual Resolution Date” within the CAFU record for all non-reportable audits that have questioned costs or negative findings. Resolution dates are required within the CAFU eTool record for the subsequent entry of disposition dates. Higher-level regulations, policy, guidance, agreements, and/or DCMA subject matter instructions, particularly timing requirements, should always be reviewed in conjunction with this Instruction (e.g., FAR 15.406-1 requires a PNOM). Otherwise, this Instruction does not establish or require any formal timing requirements, procedures for documentation, or management review for resolving non-reportable audits, with the exception of CAS Disclosure Statement audits. (See paragraphs 3.3.1. Table 1; 3.4.2. Table 3; and 3.6.7.2.) Additional requirements, procedures, and documentation are at the discretion of the directorate. Non-reportable audits are not included in the Agency performance metrics and are not included in the DoD IG Semi-Annual Report to Congress. However, the ACO shall disposition all non-reportable audits with questioned costs or negative findings and shall forward a copy of the PNM, MFR, or other documentation on the disposition of the audit, to DCAA (FAR 15.406-3, FAR 15.407-1(d), FAR 30.606, FAR 49.110, FAR 30.605, etc. (Reference (f))). See paragraph 3.10. regarding the disposition of non-reportable audits.

3.8. DEFERRED AUDITS.

3.8.1. An audit is considered “deferred” in the CAFU system if the contractor or the audit is the subject of litigation or investigation. At such time as the ACO becomes aware, or is advised by legal counsel or investigative service, the audit is the subject of an investigation or litigation, the ACO shall change the audit to a deferred status within the CAFU eTool record, record the reason for deferment, record the appropriate dates and court docket numbers, as applicable, and comply with the instructions of the legal counsel or investigative representative.

3.8.2. If an audit becomes deferred, the ACO shall follow-up with the legal counsel or investigative service on a regular basis to obtain the updated status of the litigation or investigation and shall document the progress within the “Remarks” section of the audit record.

3.8.3. Once the case is returned to the ACO for administrative disposition, the ACO shall change the audit record to a “Dispositioned” status and record the date of status change, then proceed with disposition activities and responsibilities to close the audit. (The change in status from “Deferred” to “Dispositioned” almost always results in an audit becoming instantly overage as a CAFU performance metric. The “Remarks” section should document the circumstances.)

3.9. DISPOSITION OF REPORTABLE AUDITS.

3.9.1. Time Requirement for Disposition. The ACO shall disposition reportable audits within 12 months of the audit report issuance date unless another regulation or policy provides for an earlier deadline. The guidance set forth in this Instruction is generally controlling unless another regulation or policy requires additional action or a shorter timeline for a specific matter. Higher-level regulations, policy, guidance, agreements, and/or DCMA subject matter instructions, particularly timing requirements, should always be reviewed in conjunction with

this Instruction. Timely resolution of DCAA audit reports is critical for ensuring the Government promptly recoups reported unallowable costs, improves contractor control systems, and corrects cost accounting practices that do not comply with the cost accounting standards. Reportable audits not dispositioned within 12 months are considered overage. If the ACO is unable to disposition the reportable audit within 12 months, the ACO shall document why the reportable audit could not be dispositioned in the 12 month period in the “Remarks” section of the CAFU eTool, and document the actions taken to achieve disposition at least monthly. The ACO shall also update the estimated “Revised Target Disposition” date as circumstances change and/or more information becomes available, and document the “Remarks” section accordingly.

3.9.2. Remarks. Remarks entered in the CAFU record shall summarize the status of actions taken (or planned) to achieve resolution or disposition. Remarks shall be updated monthly if the records become overage. (See paragraphs 3.9.1. and 3.9.2.) Remarks shall be entered with the current date at the start of each entry and the sequence of dates/events and corresponding narrative shall read top to bottom. Users are not required to retroactively revise the sequence of remarks entered for records established prior to the date of this Instruction. The remarks are readily available to higher-level managers and the DoD IG in the CAFU Reports. The remarks should be concise; identify specific actions and dates; and show progressive action being taken to move the audit toward resolution and disposition. Use of the term “no change” is acceptable for monthly updates. However, the ACO shall document a reason for no change after 3 months/entries of “no change.”

3.9.3. Record is Dispositioned and Closed. An audit is considered dispositioned and closed in the CAFU system when all settlement actions have taken place relative to the costs questioned or negative findings of an audit report **and** the ACO completes, and obtains management review and concurrence with the PNM, MFR, or other document dispositioning the audit, and a CAFU eTool generated email is sent (Forward) to DCAA with a copy of the PNM, MFR, and/or other dispositioning documents attached. (See Management Review paragraph 3.9.10.)

3.9.4. Settlement-Disposition Actions. The disposition of an audit is usually defined based on the type of audit it relates to. Disposition for most audits can be defined using the guidelines below.

3.9.4.1. The ACO negotiates a settlement covering all audit issues with the contractor and executes any required contracting action (e.g., indirect rate agreement).

3.9.4.2. The ACO issues a final determination/decision pursuant to FAR Subpart 33.2—Disputes and Appeals (Reference (f)), **and** the 90-day time limit for appeal to the Armed Services Board of Contract Appeals (ASBCA) has elapsed without contractor appeal. If the contractor subsequently appeals to the U.S. Court of Federal Claims (CoFC) within the 1-year limitation, the audit record shall be reopened and put into deferred status - litigation.

3.9.4.3. A decision is rendered on an appeal made to the ASBCA or CoFC and any corrective actions directed by ASBCA or the CoFC are complete, and any associated contractual documents are executed.

3.9.4.4. The ACO makes a written determination all actions have been taken and no further actions can reasonably be anticipated and it is reviewed and concurred with by the CMO Contracts Director, Director of CACO/DACO Group, or Team KD Supervisor.

3.9.5. Supplemental Audits. If a supplemental audit report is issued by DCAA and a corresponding record is imported to the CAFU system, the system will automatically disposition the original audit and report zero questioned costs on the original record. This is a fully automated process, and no ACO action required on the original audit report. (See paragraph 3.2.5. for additional information.)

3.9.6. Systems Audits. The requirements for the disposition of systems audits vary with different types of systems. Higher-level regulations, policy, guidance, agreements, and/or DCMA subject matter instructions, particularly timing requirements, should always be reviewed in conjunction with this Instruction.

3.9.6.1. The ACO shall follow the guidance in DCMA subject matter instructions (e.g., Earned Value Management System-Compliance Reviews, Estimating System Reviews, MMAS, Contract Property Management, CPSR), DFARS 242.75 for contractor accounting systems (Reference (l)), and DCMA-INST 131 (Reference (h)) for the resolution and disposition of systems audits. In general, a systems audit report can be dispositioned in the CAFU system when the ACO makes a final determination to approve or disapprove a system, notifies the contractor in writing, and documents the determination. If the ACO does not make a determination, the ACO shall document the reasons and circumstances in an MFR. The ACO shall obtain management review and concurrence with the PNM, determination, COFD, MFR, or other documentation prior to issuance and disposition of the audit in accordance with paragraph 3.9.10.

3.9.6.2. For legacy audits, the ACO should follow the requirements stated in the DCMA-INST 131 (Reference (h)). In cases where the ACO did not make a final determination (approval, disapproval, etc.) and a follow-up or a new audit is in process, the legacy audit should remain open in the CAFU system until the ACO has received the follow-up/updated audit report and has issued a final determination on the system in writing to the contractor.

3.9.7. Indirect Rates (Final Overhead). The ACO shall follow the guidance in DCMA-INST 125, "Final Overhead Rates" (Reference (n)). The indirect rate or incurred cost audit is dispositioned when the ACO negotiates a settlement covering all audit issues with the contractor, including the assessment of penalties and interest (see paragraphs 3.9.7.4. and 3.11.), and executes a signed indirect rate agreement. An indirect rate agreement cannot be signed until all corporate and home office cost allocations have been settled, if applicable. (Exception: ACO and DCAA agree and document the corporate or home office allocations will not impact the rates.) If penalties are assessed, the ACO shall wait 90 days after issuing the assessment/final determination before closing the record in the CAFU system. (See paragraphs 3.9.7.4. and 3.11.2.)

3.9.7.1. PNM Reconciliation. For indirect rates, the ACO shall include a reconciliation in the PNM of all costs questioned in the DCAA audit report to the cost or pricing data submitted

during the negotiations that were relied upon in reaching a settlement, including period costing and/or allocability issues, as required by FAR 42.705-1(b)(5)(iii) (Reference (f)).

3.9.7.2. Unresolved Costs. The ACO may disposition an indirect cost rate audit report prior to dispositioning unresolved costs if the unresolved costs have no impact on the indirect rates (e.g., subcontract costs). Include a remark in the PNM and the CAFU system indicating the unresolved costs will be addressed upon receipt of the DCAA audit opinion on the unresolved costs. Corporate and Home Office cost allocation generally impact the indirect rates.

3.9.7.3. Indirect Costs Reported on a DCAA Form 1. If DCAA attaches a DCAA Form 1, Notice of Contract Costs Suspended and/or Disapproved, to the final overhead audit report for questioned indirect costs the contractor disagrees with, the ACO responsible for the final overhead rates will negotiate/settle the costs, including the issuance of a COFD if necessary, and a demand for payment. (See DCMA-INST 128, “Disallowance of Costs” (Reference (o)).)

3.9.7.4. Penalties. A template for a COFD and Demand for Payment of Debt for penalties on expressly unallowable costs is provided in the Tools section of the Policy Resource Web page of this Instruction. The DoDI 7640.02 (Reference (d)) states a record is considered dispositioned when the contracting officer issues a final determination pursuant to the disputes clause, and 90 days elapse without contractor appeal to the ASBCA. FAR 42.709, Assessing the Penalty (Reference (f)) states the letter shall state the determination is a final decision under the Disputes clause of the contract. Accordingly, the ACO shall wait 90 days after issuing a penalty assessment, before closing the record in the CAFU system (just like COFDs on CAS noncompliances), but sooner if the contractor remits payment prior to the 90 day lapse. (See paragraph 3.11.2.1.)

3.9.8. CAS Related Audits. The ACO shall follow the guidance in DCMA-INST 108 (Reference (m)) and FAR Part 30, Cost Accounting Standards (CAS) CAS Administration (Reference (f)) for the resolution and disposition of CAS related audits and issues.

3.9.8.1. Disclosure Statements and Accounting Changes. See DCMA-INST 108 (Reference (m)), FAR 30.202 and FAR 30.602 (Reference (f)) for detailed guidance on Disclosure Statements and accounting changes.

3.9.8.2. CAS Noncompliances. For CAS noncompliance audits, the audit is dispositioned when the contracting officer issues a written determination of compliance or noncompliance to the contractor, and demand for payment, if applicable, notifies DCAA of the determination and the basis for the determination in accordance with FAR 30.605(b)(3) (Reference (f)), **and** the 90-day time limit for appeal to the ASBCA has elapsed without contractor appeal. If the contractor appeals to the CoFC within 12 months after determination, the audit record must be re-opened in a deferred status in the CAFU eTool record. A template for a COFD and Demand for Payment of Debt is provided on the Policy Resource Web page of this Instruction.

3.9.8.3. Cost Impacts. For CAS cost impact audits, the ACO may resolve a cost impact attributed to a change in cost accounting practice or a noncompliance by adjusting a single

contract, several but not all contracts, all contracts, or any other suitable method. The audit is dispositioned when the ACO executes a bilateral modification that resolves the cost impact or issues a final decision and unilaterally adjusts the contracts, FAR 30.606 (Reference (f)). The ACO shall provide a copy of the PNM to DCAA and any affected contracting officers, FAR 30.605(b) (Reference (f)).

3.9.8.4. Audit Issue Tracking (AIT) eTool. In accordance with DCMA-INST 108 (Reference (m)), Disclosure Statements and accounting practice changes, CAS noncompliance and cost impact audits shall be input into the AIT eTool. The AIT eTool will be used to track the total time from any notice of a Disclosure Statement submission, accounting practice change, or CAS noncompliance through the disposition of the cost impact of the change/noncompliance.

3.9.9. Documentation Requirements. To disposition the audit, the ACO shall document the following, if applicable, in a signed and dated PNM, COFD, determination, or MFR to the contract file, and shall obtain management review and concurrence from the CMO Contracts Director or Team KD Supervisor.

3.9.9.1. Agreement/Disagreement with Audit Findings. For each audit finding and recommendation, including the disposition of questioned costs, unresolved costs and the assessment of penalties and interest (see paragraph 3.11.), the ACO's documentation shall indicate with an affirmative statement whether the audit finding, and/or recommendation is agreed to and, if not, include sound rationale and basis for the disagreement.

3.9.9.2. Consultation with Legal Regarding Disagreement. If the ACO disagrees with the audit findings and the disagreement is based on an interpretation of a law or regulation, the ACO should consult with the supervisor and Agency legal counsel. The basis/rationale for the disagreement and the results of the consultations shall be documented in the PNM or MFR for the contract file. Rejection of advice from the functional specialist or auditor on Business Systems is subject to Board of Review requirements set forth in DCMA-INST 134 (Reference (o)).

3.9.9.3. Consideration of Regulations and Instructions. The ACO's disposition documentation should demonstrate the ACO has considered all appropriate FAR, DFARS, and DCMA Instructions related to the issue raised or questioned by DCAA.

3.9.9.4. Potential Claims Against Contractor. If the results of audit and/or the ACO's determination/decision has the potential for a claim against the contractor (e.g., CAS related audits), the ACO shall consult with Agency legal counsel and document the file. FAR 33.206 (Reference (f)) and the Contracts Disputes Act (CDA) (Reference (j)) provide "each claim by the Federal Government against a contractor relating to a contract shall be submitted within 6 years after accrual of the claim." See DCMA-INST 905 (Reference (k)) and FAR Subpart 33.2 (Reference (f)) for specific guidance and applicability.

3.9.9.5. Final Decisions and Contractor Appeal. The ACO and the reviewing CMO Contracts Director or Team KD Supervisor, shall ensure, in preparing COFD, advice is obtained from assigned legal counsel, the Contract Disputes Resolution Center (CDRC) and other

advisors in accordance with DCMA-INST 905 (Reference (k)), DCMA-INST 108 (Reference m)), and FAR 33.211 (Reference (f)). If the contractor subsequently appeals the final decision in the CoFC, the ACO must reopen the audit record in the CAFU eTool and put into a deferred status - litigation.

3.9.9.6. Other Related Negotiations. Incorporate the negotiation results from other Agency organizational components, or other Government agencies, within the PNM.

3.9.10. Management Review. The ACO shall obtain management review and concurrence with the PNM, determination, COFD, MFR, or other documentation prior to the disposition of the audit from the CMO Contracts Director, and the DACOs/CACOs shall obtain management review and concurrence from the CACO/DACO Team KD Supervisor. **NOTE:** Management review authority for the PNM or MFR cannot be delegated to a level lower than the supervisor. Management review of CAS related audits (Disclosure Statements – Adequacy and/or Compliance, Accounting Changes, CAS Noncompliances, and Cost Impacts) cannot be delegated below the Contracts Director Level or the Team KD Supervisor. If the ACO proceeds without concurrence from management, the ACO shall document the rationale for the action in the memorandum supporting the action.

3.9.11. Boards of Review (BoR). The ACO shall request a BoR for certain disposition actions as applicable and required by DCMA-INST 134 (Reference (i)). See the Matrix Chart on the Boards of Review Policy Resource Web page.

3.9.12. Forward Disposition Documentation. The ACO shall provide a copy of the PNM, COFD, final determination, MFR, or other dispositioning documentation, to the DCAA auditor, and any other Government agencies involved in or affected by, the disposition of the audit within 30 days of issuance. The ACO shall print and/or maintain a copy of the email and the attachment. The email to DCAA shall include wording to indicate a document is attached, or shall state the exception for no document.

3.9.13. Record Dispositioned and Closed in CAFU System/eTool. The audit status is considered dispositioned and closed in the CAFU system and for performance metrics purposes when:

- PNM, COFD, determination, MFR is complete
- Management/supervisor has reviewed and concurred with the PNM, COFD, final determination, or other documentation
- Questioned costs sustained and/or penalty assessed amounts have been entered
- “Actual Disposition Date” is entered and submitted
- “Remarks” section is updated, as necessary
- System generated email is forwarded to DCAA with a copy of the PNM, MFR, or other record documenting disposition (e.g., COFD) attached to the email
- “Forward Date” is entered in the record (once forwarded, ACO can no longer access the record without CAFU monitor assistance)

3.10. DISPOSITION OF NON-REPORTABLE AUDITS.

3.10.1. The procedures for the disposition of non-reportable audits are the same as the procedures for the disposition of reportable audits in paragraph 3.9, with the exception of management review requirements. Non-reportable audits are not included in the Agency performance metrics and are not included in the DoD IG Semi-Annual Report to Congress. However, the ACO shall disposition all non-reportable audits with questioned costs or negative findings and shall forward a copy of the PNM, MFR, or other documentation on the disposition of the audit, to DCAA, FAR 15.406-3, FAR 15.407-1(d), FAR 30.606, FAR 49.110, FAR 30.605, etc. (Reference (f)). For non-reportable audits requiring no input or action required by the ACO or DCMA (e.g., audit determined indirect rates with no penalties), no MFR/PNM is required. The ACO may simply document no action is required in the “Remarks” section with a brief description of the circumstances, enter an Actual Disposition date and Forward date, and acknowledge receipt of the audit report in an email to DCAA using the CAFU eTool Forward feature.

3.10.2. Time Requirements for Disposition. The ACO shall disposition all non-reportable audits within 12 months of the audit report issuance date and shall document actions taken to achieve disposition in the “Remarks” section of the CAFU eTool. (See paragraph 3.9.1.)

3.10.3. Remarks. The ACO shall enter remarks in the CAFU system on a recurring basis if the audit is not dispositioned in a timely manner. (See paragraph 3.9.2.)

3.10.4. Management Review. Management review requirements for the PNM, final determination, final decisions, or MFR for non-reportable audits is at the discretion of the directorate, with the exception of CAS related audits. (See paragraph 3.9.10.)

3.11. QUESTIONED COSTS, PENALTIES AND INTEREST.

3.11.1. Questioned Costs. The ACO shall promptly and accurately report questioned costs sustained in conjunction with the disposition of reportable and non-reportable audits. The ACO shall report the following questioned costs sustained amounts in the CAFU system/eTool:

3.11.1.1. Questioned costs or amounts agreed to by the contractor during negotiations.

3.11.1.2. Questioned costs agreed to between the auditor and contractor during the course of the audit, except for audit-determined incurred cost audits where the auditor and contractor agree on all questioned costs and the auditor does not identify questioned costs subject to penalty.

3.11.1.3. Questioned costs the contractor does not agree with when the ACO issues a final decision or makes a written determination the costs are unallowable.

3.11.1.4. The ACO shall exclude from questioned costs sustained any corporate or divisional allocated costs if another DoD contracting officer is responsible for negotiating and reporting them in the CAFU system.

3.11.1.5. If a supplemental audit report is issued by DCAA, and a corresponding record imported to the CAFU system, the system will automatically disposition the original audit and report zero questioned costs on the original record.

3.11.2. Penalties and Interest. Assessment of penalties, and interest if applicable, and other demands for payment shall be issued in accordance with FAR Subpart 32.6 - Contract Debts, (Reference (f)), which prescribes policies and procedures for identifying, collecting, and deferring collection of contract debts (including interest, if applicable). A copy of the demand for payment shall always be provided to the contract payment office. The ACO shall periodically follow-up with the payment office to determine whether the debt has been collected and credited to the correct appropriation(s).

3.11.2.1. The ACO shall assess penalties and interest (or document a waiver) in accordance with part FAR 42.709 (Reference (f)) if the contracting officer determines a contractor included costs that are expressly unallowable, or previously determined to be unallowable, in its final indirect cost rate proposal. The amount of assessed penalties shall be reported separately from the reported questioned costs sustained in the CAFU system/eTool. A template for a COFD and Demand for Payment of Debt for penalties on expressly unallowable costs is provided in the Tools section of the Policy Resource Web page of this Instruction. The DoDI 7640.02 (Reference (d)) states a record is considered dispositioned when the contracting officer issues a final determination pursuant to the disputes clause, and 90 days elapse without contractor appeal to the ASBCA. FAR 42.709, Assessing the Penalty (Reference (f)), states the assessment letter shall state the determination is a final decision under the Disputes clause of the contract. Accordingly, the ACO shall wait 90 days after issuing a penalty assessment, before closing the record in the CAFU system.

3.11.2.2. The ACO shall collect interest assessed on overpayments resulting from defective cost or pricing data on DoD contracts in accordance with section 2306(a) of title 10, United States Code (Reference (p)) and FAR 15.407-1(b)(7) (Reference (f)).

3.11.2.3. The ACO shall collect interest assessed on increased costs paid by the Government as a result of a CAS noncompliance in accordance with FAR Parts 52.230-2(a)(5), 52.230-3(a)(4), and 52.230-4 (Reference (f)). A template for a COFD and Demand for Payment of Debt is provided on the Policy Resource Web page of this Instruction.

3.12. PERFORMANCE STANDARDS.

3.12.1. DoDI 7640.02 requires the Secretaries of the military services and Directors of DoD agencies to address the timeliness and effectiveness in resolving and dispositioning audit findings and recommendations in appraisals and, where appropriate, in performance standards for acquisition officials involved in contract audit follow-up actions. Accordingly, DCMA has established a Standard CAFU Performance Objective as a CTMA (included on the Policy Resource Web page of this Instruction). The CMO Commander/Director shall ensure, if applicable, and it applies to the individual and the scope of the individual's assigned duties and

responsibilities, the CMO Contracts Director, the Team Leaders/Supervisors, and the ACOs are rated on the Standard CAFU Performance Objective. The Director, Cost and Pricing Center, shall ensure, if applicable, and it applies to the individual and the scope of the individual's assigned duties and responsibilities, the Director of CACO/DACO Group, the Team KD Supervisors, and the CACOs and DACOs, are rated on the Standard CAFU Performance Objective.

3.12.2. If the CMO Contracts Director or the Director of CACO/DACO Group determines any ACO has not demonstrated the requisite specialized knowledge, experience, training, business acumen, and judgment required to execute the duties of an ACO, the CMO Contracts Director or the Director of CACO/DACO Group shall immediately submit a recommendation to terminate the ACO's appointment to DCMA Contracts Directorate (DCMA-AQ), with a copy to the Contracts Director, Operations Directorate or to the Director, Cost and Pricing Center, as applicable.

3.13. RETENTION OF RECORDS.

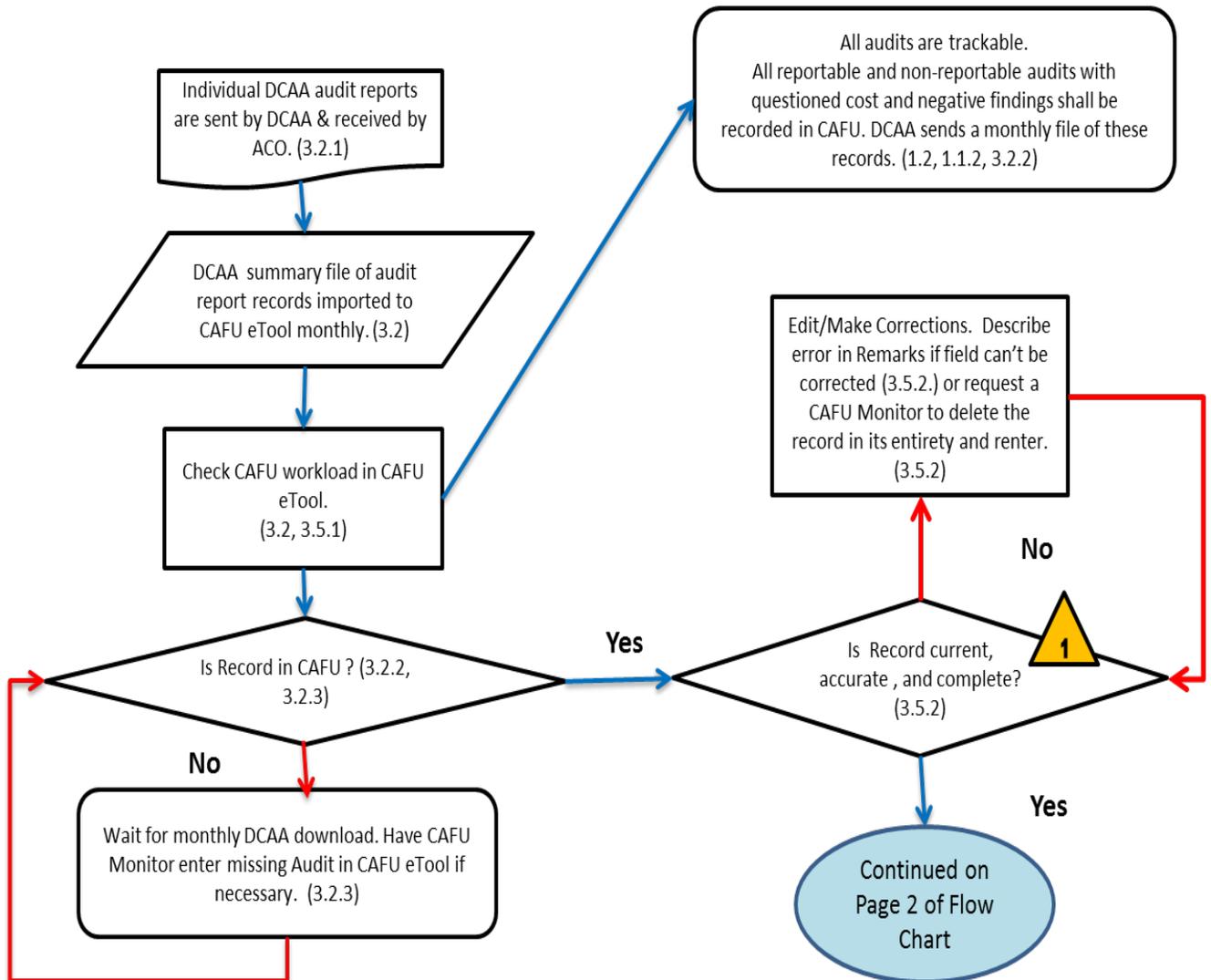
3.13.1. CAFU records shall be retained for a minimum of 6 years and 3 months after final payment of the last contract affected by the audit. Retention of the file documentation and copies of the actual audit reports from DCAA are the responsibility of the ACOs, the CMO Contracts Directors, and the Director of CACO/DACO Group.

3.13.2. DCMA-INST 809, "Records Management" (Reference (q)), provides for an orderly system of organizing records for filing, reference, and eventual disposition. Maintenance of historical documentation relating to the resolution and disposition of audit reports is the responsibility of the office executing the process. Upon dispositioning and closing the CAFU audit record, the documentation relied on and generated during the resolution and disposition process shall be stored using a naming convention that will allow for its logical retrieval and shall be stored in a specific location identified/sanctioned by the component and in accordance with DCMA direction and/or policy on the retention of records. If documents relating to the audit record are too large to upload electronically, or documents should not be uploaded (e.g., documents subject to attorney-client privilege), they should be stored in a hard copy file. The electronic file should be annotated with the location of these documents.

APPENDIX A

CAFU PROCESS FLOW CHART

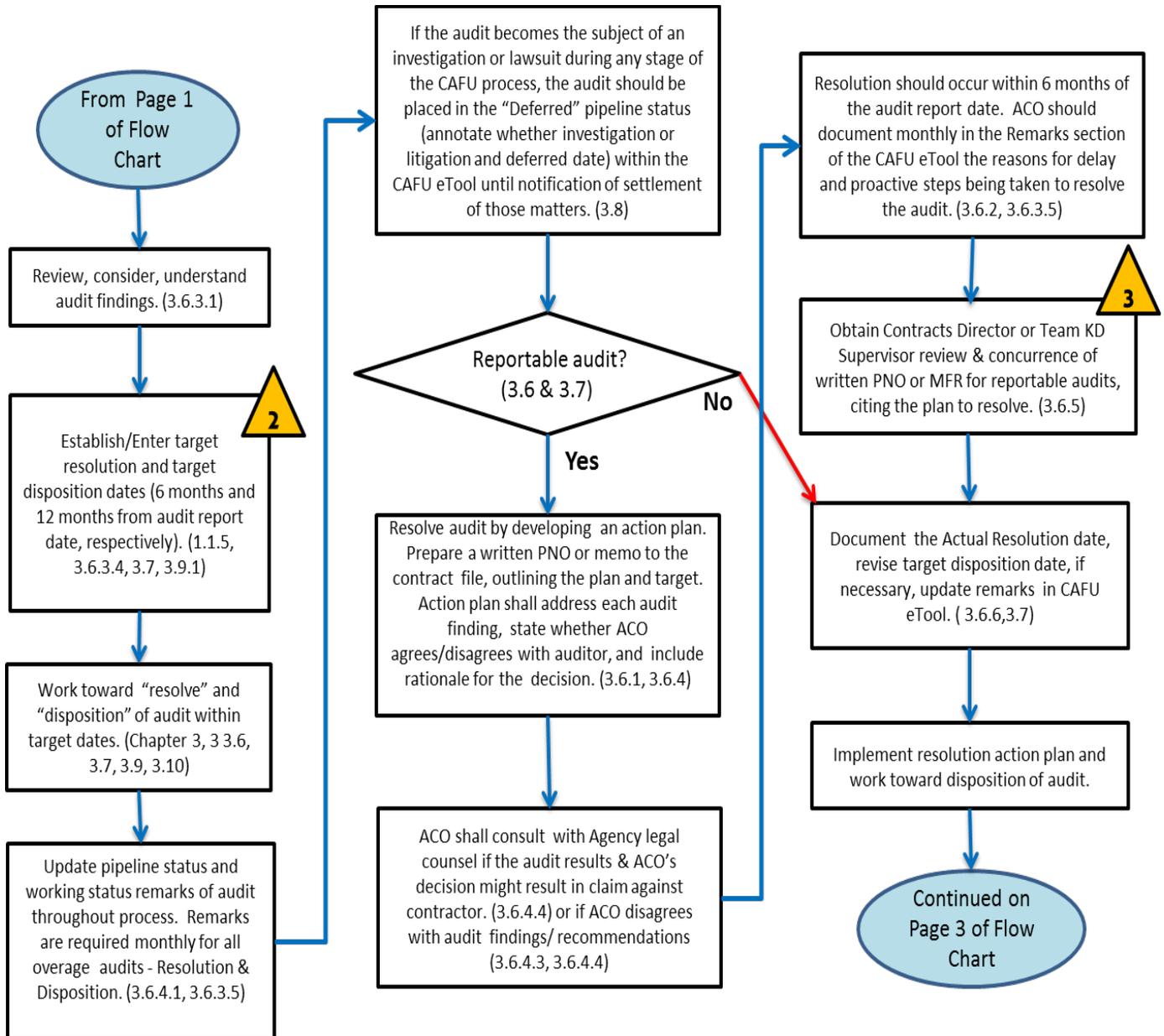
Flow Chart Page 1



APPENDIX A

CAFU PROCESS FLOW CHART

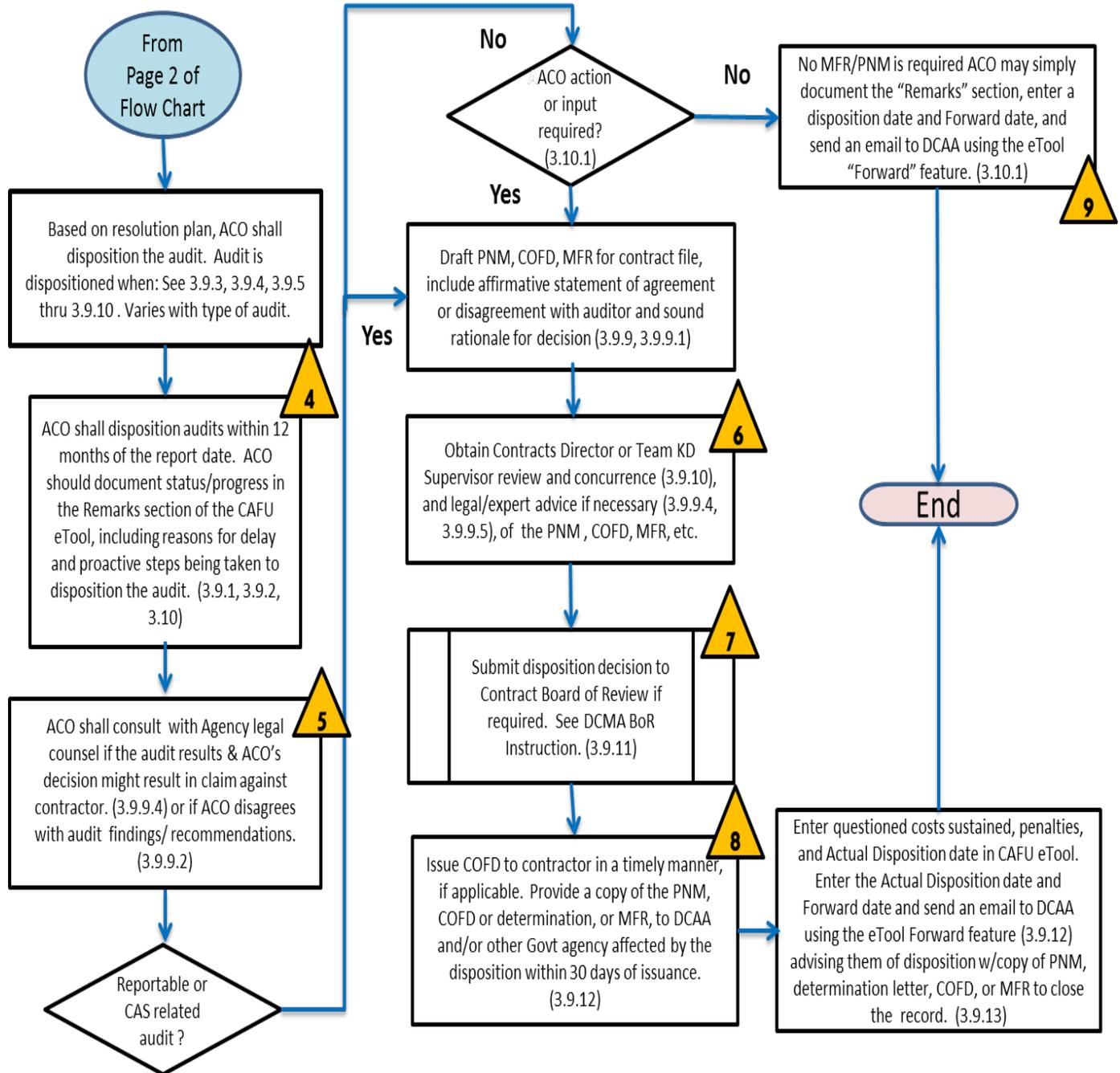
Flow Chart Page 2



APPENDIX A

CAFU PROCESS FLOW CHART

Flow Chart Page 3



APPENDIX A**CAFU PROCESS FLOW - KEY CONTROL CHART OF IDENTIFIED PROCESS RISK**

Key Control	Functional Area	Risk	Possible Controls
1	Accuracy of data within record imported from DCAA.	<ul style="list-style-type: none"> Record incorrectly assigned. Inaccurate measurement of resolution and disposition. Incorrect information reported to DoDIG. DoDI 7640.02 requirement. 	<ul style="list-style-type: none"> Require verification that data within the record is current, accurate and complete. Compare record with audit report received and/or contact DCAA auditor to verify or obtain correct information.
2	Entry of "Target Resolution Date" & "Target Disposition Date" in record of CAFU system/eTool.	<ul style="list-style-type: none"> Establishes baseline for assessing whether audit is resolved and dispositioned on time (6mos. & 12 mos., respectively) in accordance with DoDI 7640.02 requirements. 	<ul style="list-style-type: none"> Require entry of "Target Resolution Date" and "Target Disposition Date" within the CAFU system/eTool upon receipt/notification of the record.
3	Management review and concurrence of ACO's plan (PNOM or MFR) to resolve the findings or questioned costs disclosed by the audit.	<ul style="list-style-type: none"> No follow-up on audit report findings, or untimely follow up. Inappropriate or inadequate action plan. 	<ul style="list-style-type: none"> Review/oversight of plan by management. Performance Metrics. System generated reports..
4	Timeliness of audit resolution & disposition.	<ul style="list-style-type: none"> Overage audit follow-up per DoDI 7640.02 requirements. Misuse/overspend of taxpayer dollars. Failure to ensure that Federal supplies and services are delivered on time, at projected cost, and meet performance requirements. 	<ul style="list-style-type: none"> Require CAFU disposition within 12 months of audit report date. Record dates and measure timeliness. Internal and external management oversight.
5	Consult legal counsel as it relates to audits having potential claim against the contractor.	<ul style="list-style-type: none"> Failure to make a decision and demand payment from the contractor may results in non-recovery of questioned costs from contractor. 	<ul style="list-style-type: none"> Require consultation with legal counsel. Provide guidance.
6	Management review and concurrence with /oversight of ACO's disposition decision.	<ul style="list-style-type: none"> Incorrect decision/disposition. 	<ul style="list-style-type: none"> Require management consultation/review for guidance/concurrence.
7	Board of Review	<ul style="list-style-type: none"> Decision/Disposition on a single audit could have a significant impact on other contracts, contractors, and Govt. policy. Material impact. Inconsistency if application of policy/procedures. 	<ul style="list-style-type: none"> Require Board of Review (BoR) in accordance with criteria and dollar thresholds as established on the DCMA Instruction BoR matrix chart .
8	Copy of the PNM, COFD or determination, or MFR, to DCAA and/or other Government agency affected by the disposition.	<ul style="list-style-type: none"> Incomplete audit follow-up process. Noncompliance with FAR requirements. Lack of feedback for future work. Inefficient use of employee resources. 	<ul style="list-style-type: none"> Automated email prompted by the system after entry of audit disposition date.
9	Entry of disposition and record closing data, and forwarding record to DCAA and other agencies, if applicable. er questioned costs sustained, penalties, and Actual Disposition date in CAFU eTool. Using the "Forward" feature of the CAFU eTool, send email to DCAA advising them of disposition w/copy of PNM, determination letter, final decision letter, or MFR to close the record. (3.9.9.)	<ul style="list-style-type: none"> Audit is not dispositioned. Incomplete reporting to DoDIG. Lack of professional courtesy to agency providing services. 	<ul style="list-style-type: none"> Require completion entries and steps to disposition the record. Failure to disposition will be reflected in internal metric/performance indicator and also in the semi-annual report to DoDIG.

APPENDIX B**Matrix of CAFU Audit Type Codes and DCAA Activity Codes**

CAFU CODE	AUDIT TYPE	ACTIVITY CODES
B	Accounting and Management System Audits (includes Estimating System Surveys)	11010, 11020, 11050, 11060, 11070, 11090, 11510, 12030, 12500, 13010, 13020, 14980, 17740 (post-award), 17741, 24010, 24020, 24090, 26000 (some 19100*)
C	Claims and Equitable Adjustments	17200
D	Post-award Audits	42000, 42097, 42098
E	CAS Noncompliance and Cost Impact Statement Audits	19200, 19500 (some 19100*)
F	Operation Audits and Operations Audits Follow-up	10501, 10502, 10503, 10601
G	Incurred Cost and Settlement of Final Indirect Cost Rates	10100, 10110, 10180, 17800, 17900, 17920
H	Contractor Insurance and Pension Audits	DCMA only
I	Final Pricing	Reserved
J	Terminations	17100
K	Earned Value Management System Audits	17750, 17760, 17770
O	Other	Often used for Non-reportable, but not exclusively

APPENDIX B**Matrix of CAFU Audit Type Codes and DCAA Activity Codes**

B.1. “B” CAFU Audit Type codes are reportable if audit opinion cites the system as inadequate. Except for 24020 and 24090. Post award 17740 is reportable, but pre-award survey 17740 is not reportable. Estimating system 24010 (with internal control assignment types 4 = flash report or 2 = follow-up) are reportable.

B.2. “C”, “F”, “G”, “I”, and “J” CAFU codes are reportable if total exception dollars are greater than or equal to \$100,000.

B.3. “D” and “E” (19500 only) CAFU codes are reportable if total exception dollars are greater than zero.

B.4. All 19200 audits are reportable.

B.5. Some DCAA auditors code 19100s as type B audits, some DCAA auditors code them as type E audits. Technically, both types are currently considered correct.

B.6. “K” CAFU codes are reportable if audit contains conditions and recommendations.

APPENDIX C**Matrix of DCMA Trackable/Non-Reportable Audits and DCAA Activity Codes**

AUDIT TYPE	ACTIVITY CODES	Notes
Operation Audits	10501, 10502, 10503	1
Incurred Cost and Settlement of Final Indirect Cost Rates	10100, 10110, 10180, 17800, 17900, 17920	1
Terminations and Claims	17100, 17200	1
Pre-award Accounting Survey – Nonmajor Accounting System	17740	2
CAS Initial/Revised Disclosure Statement	19100	3
Forward Pricing	21000, 22000, 27000, 27010	4

NOTES:

1. Total exception dollars is between \$1 and \$99,999.
2. Audit opinion the system is unacceptable.
3. These are logged as non-reportable by the CAFU system and for DoD IG reporting purposes, but current DCMA policy is to treat them as reportable in every other respect: time requirements, documentation and management review due to their significance.
4. Total costs questioned is greater than zero.

GLOSSARY

DEFINITIONS

Adverse Opinion. An audit opinion containing the statement that the contractor's proposal is not acceptable as a basis for negotiation of a fair and reasonable price.

Closed Audit Report. A report that has been dispositioned by the contracting officer and closed for follow-up reporting purposes.

Contract Audit Report. The contract auditor's written advice to a contracting officer advocating specific action and/or including qualified or adverse opinion information. An audit report could include amounts questioned or disapproved, recommendations on a contractor's system or operations (usually expressed in terms of cost avoidance), recommended price adjustments, or notification of a contractor's noncompliance with CAS.

Disposition. An audit is considered to be dispositioned when the contracting officer completes a signed and dated PNM all corrective actions have been taken, so that no further actions can be reasonably anticipated.

Investigation. An audit is considered to be in investigation status when an investigative agency of the U.S. Government is reviewing any of the audit issues.

Litigation. An audit is considered to be in litigation status when any of the audit issues are under review by a court or tribunal including the ASBCA, the U.S. Court of Federal Claims, the U.S. Court of Appeals for the Federal Circuit, or the United States Supreme Court.

Non-Reportable Audits. Audits covering pre-award proposals; forward pricing labor, overhead, and other advance rate proposals; progress payments; pre-award surveys; proposals for change orders or modifications; assist audits; contract audit closing statements; auditor-determined final indirect rates where the auditor and contractor agree on the questioned costs and DCAA does not identify questioned costs subject to penalty; and any other audit reports not specifically identified as reportable.

Open Audit Report. An audit report that has not been dispositioned during the reporting period.

Original Audit Report Date. The date of an initial audit report that was superseded or supplemented by a subsequent audit report.

Penalties and Interest. Amounts assessed for an unallowable cost, a CAS noncompliance, or a post-award price adjustment. Penalties and interest are assessed in addition to the recovery of questioned costs sustained.

Potential Cost Avoidance. The DCAA estimate of cost savings associated with implementing a DCAA recommendation to improve the economy or efficiency of contractor operations.

Qualification. A restriction on the audit scope and/or the lack of sufficient evidential matter which preclude the auditor from expressing an unqualified opinion.

Questioned Costs. The amount of audit exception, potential cost avoidance, or recommended price adjustment in the audit report including:

- An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other document governing the expenditure of funds.
- An auditor finding that at the time of the audit, the cost is not supported by adequate documentation.
- An auditor finding or determination that the intended purpose of a particular expenditure of funds is unnecessary or unreasonable.

Questioned Costs Subject To Penalty. Includes:

- Questioned costs identified as expressly unallowable based on FAR 31.205 or other Agency supplement, which are subject to a single-level penalty.
- Questioned costs determined to be unallowable (or mutually agreed to be unallowable) prior to a contractor claiming them in an indirect cost proposal, which are subject to a second-level penalty.

Questioned Costs Sustained. The total questioned amount that shall not be charged to the Government. The sustained cost amount includes the questioned amounts that are agreed to by the contractor during the course of the audit, and those ~~resulting from the COFD to disallow such costs and ascertain a government claim for them.~~ *included in a COFD disallowing such costs and asserting a government claim for recovery of such costs.*

Recommended Price Adjustment. An amount calculated by DCAA in a post-award audit that reflects the estimated increase in contract price caused by a contractor submitting defective cost or pricing data.

Reportable Audit. Certain audits that are subject to the reporting requirements by the DoD OIG.

Resolution. An audit is considered to be resolved when the contracting officer has determined and documented an action plan for addressing the audit findings in a PNOM or MFR. For CAS noncompliances, resolution is achieved when the contracting officer issues a notice of potential noncompliance to the contractor. For determinations of significant deficiencies in a business system, resolution is achieved when the contracting officer issues an initial determination.

Validated Current with Administrative Changes, August 20, 2014

Unresolved. An audit is considered to be unresolved when the contracting officer has not yet determined a plan of action on the reported findings and recommendations or documented the plan in a pre-negotiation memorandum.

Unresolved Costs. Costs for which the auditor has not yet expressed an opinion.

GLOSSARY**ACRONYMS**

ACO	Administrative Contracting Officer
AIT	Audit Issue Tracking
ASBCA	Armed Services Board of Contract Appeals
BoR	Board of Review
CACO	Corporate Administrative Contracting Officer
CAFU	Contract Audit Follow-Up
CAS	Cost Accounting Standards
CBS	Contractor Business Systems
CMO	Contract Management Office
CoFC	U.S. Court of Federal Claims
COFD	Contracting Officer's Final Decision
CPSR	Contractor Purchasing System Reviews
CTMA	Contribution to Mission Accomplishment
DACO	Divisional Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DCMA-AQ	DCMA Contracts Directorate
DCMA-INST	DCMA Instruction
DFARS	Defense Federal Acquisition Regulation Supplement
DMIS	Data Management Information System
DoDD	Department of Defense Directive
DoDI	Department of Defense Instruction
DoD IG	DoD Office of the Inspector General
FAR	Federal Acquisition Regulation
HQ	Headquarters
KD	Cost and Pricing Center
MFR	Memorandum for Record
MMAS	Material Management and Accounting Systems
PLAS	Performance Labor Accounting System
PNM	Price Negotiation Memorandum
PNOM	Pre-Negotiation Objective Memorandum