



DCMA Manual 2201-04

Contract Audit Follow Up

Office of Primary Responsibility	Indirect Cost Control Capability
Effective:	March 3, 2019
Releasability:	Cleared for public release
Implements:	DCMA-INST 2201, "Indirect Cost Control", October 2, 2018
Incorporates and Cancels:	DCMA-INST 126, "Contract Audit Follow Up," August 22, 2013, as amended
Internal Control:	Process flow and key controls are located on the Resource Page
Labor Codes:	Located on the Resource Page
Resource Page Link:	https://360.dcma.mil/sites/policy/IC/SitePages/2201-04r.aspx
Approved by:	David H. Lewis, VADM, USN, Director

Purpose: This issuance, in accordance with the authority in DoD Directive 5105.64, "Defense Contract Management Agency":

- Implements DCMA-INST 2201, "Indirect Cost Control."
- Provides and defines procedures and responsibilities for Contract Audit Follow-Up to ensure timely and appropriate resolution and disposition of Defense Contract Audit Agency audit findings.
- Establishes CAFU Reporting and Audit tracking requirements in accordance with DoD Instruction 7640.02, "Policy for Follow-Up on Contract Audit Reports."

TABLE OF CONTENTS

SECTION 1: GENERAL ISSUANCE INFORMATION.....4

 1.1. Applicability.....4

 1.2. Policy4

SECTION 2: RESPONSIBILITIES.....5

 2.1. Director, DCMA.....5

 2.2. Executive Director, Contracts5

 2.3. Directors/Commanders of the Operational Units, Director of the Cost and Pricing
 Regional Command and of the Business Operations Center5

 2.4. Contract Management Office Commander/Director, Directors of Special Programs
 Cost and Pricing Center Corporate Administrative Contracting Officer/Divisional
 Administrative Contracting Officer Group, Cost and Pricing Regional Command
 Corporate Administrative Contracting Officer/Divisional Administrative Contracting
 Officer Group and Terminations Group6

 2.5. Contract Management Office Contracts Director, Cost and Pricing Regional
 Command Corporate Administrative Contracting Officer/Divisional Administrative
 Contracting Officer Group Team Supervisors and Terminations Group Team
 Supervisors6

 2.6. Cognizant Federal Agency Official, Administrative Contracting Officer, Divisional
 Administrative Contracting Officer, Corporate Administrative Contracting Officer,
 Termination Contracting Officer7

 2.7. Contract Audit Follow Up Monitors.....8

SECTION 3: CONTRACT AUDIT FOLLOW UP SYSTEM..... 9

 3.1. Contract Audit Follow Up System..... 9

 3.2. DCMA Contract Audit Follow Up System Import of DCAA Data Management
 Information System Records.....10

 3.3. Verification of Information in the Contract Audit Follow Up Record – All Audits11

SECTION 4: CONTRACT AUDIT FOLLOW UP PROCEDURES14

 4.1. Resolution of Audits14

 4.2. Disposition of Audits18

 4.3. Deferred Audits24

 4.4. Questioned Costs, Penalties, and Interest24

 4.5. Performance Expectation26

 4.6. Records Retention26

GLOSSARY

 G.1. Definitions27

 G.2. Acronyms30

REFERENCES.....31

TABLES

 Table 1. Contract Audit Follow Up Record Information to be Verified12

 Table 2: Matrix of CAFU Audit Type Codes and DCAA Activity Codes.....12

 Table 3. Resolution Time/Documentation Requirement 14

 Table 4. Disposition Time/Documentation Requirement 18

SECTION 1: GENERAL ISSUANCE INFORMATION

1.1. APPLICABILITY. This Manual applies to all DCMA organizational elements unless higher-level regulations, policy, guidance, or agreements take precedence.

1.2. POLICY. It is DCMA policy to:

a. Establish and maintain a system that records and tracks the status and actions taken to resolve and disposition reportable and non-reportable Defense Contract Audit Agency (DCAA) contract audit reports in a timely manner, referred to as the Contract Audit Follow-Up (CAFU) system. The CAFU system will include a record for each open and closed audit. DCMA policy is based upon the DoD Instruction (DoDI) 7640.02 and for all intents and purposes incorporates its requirements and terms in its entirety. The DCMA-automated CAFU system is also used by each of the military services, Defense Logistics Agency (DLA), and the Defense Health Agency.

b. Provide to the DoD Inspector General (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 Section 3 of this Manual. The non-reportable audits are not included in the DoD IG semiannual report to Congress. The automated DCMA CAFU system should serve as the source of CAFU information provided to/accessed by the DoD IG for a Semiannual Report to Congress.

c. Resolve all reportable and non-reportable audits within 6 months of the audit report issuance date and disposition all audits within 12 months of the audit report issuance date in accordance with this Manual, unless another regulation or manual provides for a shorter timeframe. The guidance set forth in this Manual 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 Manual.

d. Execute this Manual in a safe, efficient, effective, and ethical manner.

SECTION 2: RESPONSIBILITIES

2.1. DIRECTOR, DCMA. The DCMA Director will:

- a. Designate a management official to oversee the DCMA CAFU system.
- b. Ensure management officials throughout DCMA understand the value of the audit process and are responsive to audit findings and recommendations.
- c. Provide names, titles, and telephone numbers of the designated management officials to the DoD IG.
- d. 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 CAFU actions.
- e. Require periodic internal reviews of the DCMA CAFU procedures and performance to determine whether Administrative Contracting Officers (ACOs) timely and effectively resolve and disposition audit findings and recommendations.
- f. Ensure monitoring and implementation of policies and procedures whereby ACOs consider all contract audit findings and recommendations.

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

- a. Ensure the CAFU system maintains the status of all reportable and non-reportable contract audit reports.
- b. 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 audit.

2.3. DIRECTORS/COMMANDERS OF THE OPERATIONAL UNITS, DIRECTOR OF THE COST AND PRICING REGIONAL COMMAND AND OF THE BUSINESS OPERATIONS CENTER. The Operational Units, Cost and Pricing Regional Command, and Center Directors/Commanders will:

- a. Monitor component-level performance and compliance with CAFU policy and procedures.
- b. Ensure Contracts Directors and the Director of Corporate/Divisional Administrative Contracting Officer (CACO/DACO) Group, are rated on the CAFU Standard Performance Expectation. (See paragraph 4.5. of this Manual.)
- c. Ensure assignment of Headquarters (HQ)-level or District (Region)-level CAFU monitors are limited and approved by the Directorate Contracts Directors or Director of CACO/DACO Group.

2.4. CONTRACT MANAGEMENT OFFICE (CMO) COMMANDER/DIRECTOR, DIRECTORS OF SPECIAL PROGRAMS COST AND PRICING CENTER CACO/DACO GROUP, COST AND PRICING REGIONAL COMMAND CACO/DACO GROUP AND TERMINATIONS GROUP. CMO Commander/Director, Directors of Special Programs Cost and Pricing Center CACO/DACO Group, Cost and Pricing Regional Command CACO/DACO Group, and Terminations Group will:

- a. Monitor component level performance and compliance with CAFU policies and procedures.
- b. Ensure CMO Contracts Director, Special Programs Cost and Pricing Center CACO/DACO Group Team Supervisors, Cost and Pricing Regional Command CACO/DACO Group Team Supervisors, and Termination Group Team Supervisors are rated on the CAFU Standard Performance Expectation. (See paragraph 4.5. of this Manual.)
- c. Ensure CMO Contracts Directors, Special Programs Cost and Pricing Center CACO/DACO Group Team Supervisors, and Cost and Pricing Regional Command CACO/DACO Group Team Supervisors, and Termination Group Team Supervisors appoint CAFU Monitors.

2.5. CMO CONTRACTS DIRECTOR AND COST AND PRICING REGIONAL COMMAND CACO/DACO GROUP TEAM SUPERVISORS AND TERMINATION GROUP TEAM SUPERVISORS. The CMO Contracts Director, Cost and Pricing Regional Command CACO/DACO Group and Termination Group Team Supervisors will:

- a. Oversee the component level CAFU process for the resolution and disposition of audit reports. Ensure management officials within the components understand the significance of the process and are responsive to audit findings and recommendations.
- b. Ensure complete, accurate, and current records of actions taken to resolve and disposition reportable and non-reportable audit findings and recommendations are maintained.
- c. Review ACO actions, decisions, letters, and memorandums as determined appropriate. The Director of the CACO/DACO Group or CMO Contracts Director may delegate management review and concurrence as identified in the Management Review Matrix located on the Resource Page of this Manual.
- d. Ensure component personnel are trained in resolving and dispositioning contract audit reports and complying with the CAFU reporting requirements.
- e. 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.
- f. Address the timeliness and effectiveness in resolving and dispositioning audit findings

and recommendations in annual performance appraisals and, where appropriate, performance plans for acquisition officials involved in CAFU actions.

g. Ensure Supervisors, Team Leaders, and ACOs understand their contribution toward mission accomplishment and are evaluated on the CAFU Standard Performance Expectation (see paragraph 4.5. of this Manual).

h. Designate CAFU Monitor. The assignment of CMO, Center, or Cost and Pricing Regional Command CAFU monitors for component level efforts should be limited and approved by the CMO Contracts Director, Center Team Supervisor(s), and Cost and Pricing Regional Command Supervisor(s). CMO level monitors in the Internal Web Access Management (IWAM) eTools have the capability to add CAFU records into the CAFU system. The assignment of District (Region) monitors should be limited and approved by the cognizant Operational Units, Cost and Pricing Regional Command and Business Operations Center Contracts Directors/Group Supervisors. District (Region) Monitors in the IWAM eTool have the capability to both add and delete audits in CAFU. Further defining of duties at each specific level is at the discretion of the Operational Units, Cost and Pricing Regional Command, and Center based on workload needs. ACOs assigned to Special Programs are the exception and can add records in the CAFU system (see paragraph 3.2.g. of this Manual).

2.6. COGNIZANT FEDERAL AGENCY OFFICIAL (CFAO), ACO, DACO, CACO, TERMINATION CONTRACTING OFFICER (TCO), (herein and collectively referred to as ACO). The ACO will:

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

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

c. Document and promptly update the status of actions taken to resolve and disposition reportable and non-reportable contract audit reports in the CAFU system to facilitate the reporting responsibilities within the CAFU system. If the record becomes overage for resolution or disposition, update CAFU remarks on a monthly basis.

d. Monitor the timeliness and appropriateness of resolution and disposition of contract audit reports.

e. Resolve and disposition audit findings and recommendations in a timely and effective manner. Audit reports should be resolved within 6 months of report issuance and dispositioned within 12 months of report issuance, unless another regulation or manual requires a shorter timeframe. Delays in meeting the timeframes for resolution and disposition must be documented in the file and the CAFU record remarks section. While there are no time requirements for resolution of non-reportable audits in the DoDI 7640.02, it is DCMA policy that non-reportable audit records must be resolved within 6 months and dispositioned within 12 months of report issuance.

f. Consider and address all contract audit findings and recommendations in developing the pre-negotiation and post-negotiation positions, including the assessment of recommended penalties for expressly unallowable costs and any interest in accordance with FAR 42.709, "Penalties for Unallowable Costs." Address all audit scope limitations identified and the impact, if any, on negotiations. Coordinate with the other Government agencies or DCMA CMOs that have negotiation responsibility over a portion of the findings or recommendations. Audits must not be dispositioned until all questioned direct costs have been addressed.

g. Report questioned direct and indirect costs, sustained amounts, penalties and interest in the CAFU system. Amounts reported for questioned and sustained costs must not be adjusted for commercial business or government participation.

h. Provide a copy of the audit disposition document (Price Negotiation Memorandum (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.

i. Establish and implement procedures for maintaining records regarding the status of all contract audit reports. Retain audit follow-up records in the DCMA-approved records retention platform for a minimum of 6 years and 3 months after payment of the last contract affected by the audit (see paragraph 4.6. of this Manual).

j. Coordinate with a CMO or District (Region) CAFU Monitor to add audit records in the CAFU system. To delete audit records from the CAFU system, request assistance from the District (Region) CAFU monitor. Exception to the above for ACOs assigned to Special Programs (see paragraph 3.2.g. of this Manual).

2.7. CAFU MONITORS. The CAFU Monitors will:

a. Assist the components with monitoring, editing/correcting, transferring, and generally assisting the workforce with CAFU records.

b. Serve as a CAFU subject matter expert. HQ-level CAFU Monitors oversee the system, serve as subject matter experts about the policies and CAFU system, coordinate record transfers between DCMA and the military services, and coordinate the resolution of CAFU system problems.

SECTION 3: CAFU SYSTEM

3.1. CAFU SYSTEM.

a. DCMA maintains an electronic system referred to as the CAFU system. The CAFU system records actions taken to resolve and disposition audit reports. In accordance with DoDI 7640.02, all DCAA contract audit reports are to be tracked. The CAFU system maintains records of reportable and non-reportable audits and the system/database will be used to track audits. Due to Host Nation Agreements with reciprocal audit services performed by non-U.S. Government organizations, the DCMA International (DCMAI) outside the Continental United States (OCONUS) CMOs will follow DCMAI Business Practices and local Standard Operating Procedures located on the Resource Page for this Manual.

b. Personnel Access. DCMA personnel access to the CAFU system is enabled by supervisory approval within the DCMA system of record identified on the Resource Page of this Manual. External user (military services, Defense Health Agency, DCAA, DoD IG) access to the CAFU system and/or reports is enabled by approval through the DCMA system of record identified on the Resource Page of this Manual.

c. CAFU Training: (Available on the Resource Page for this Manual)

- (1) eTool User Manual, “CAFU 3.5 User Manual.”
- (2) Information Technology (IT) Training Academy, “CAFU 3.5 Course.”
- (3) CMC 210 – CAFY Course.

d. CAFU System Data Import. The CAFU system is updated monthly for audits issued by DCAA the previous month. New records are created via the data import from DCAA. Monthly updates are performed within the first 10 days of each month.

e. The CAFU system will promptly update the status of audits as Assigned, Planned, Resolved, Dispositioned, Deferred (under litigation or investigation), or Forwarded in the CAFU system as the data and dates for each action are entered.

f. Reportable Audits. Reportable audits 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 (Audit related activity codes: 21000, 22000, 23000, 27010, 28000 and 28500)
- Agreed-upon procedures (Audit related activity code of 17900, audits titled as Agreed-upon Procedures)
- Non-audit services (results will not be in an audit report format and do not belong in the CAFU system. Examples are Low Risk Memorandums, Evaluation of Final Vouchers, Provisional Billing Rates, and reviews of specific cost elements)

(1) Supplemental Audit Reports. All supplemental audit reports that supersede or supplement a previously issued reportable audit report are reportable, regardless of whether the supplemental report includes findings, recommendations, questioned costs, or potential cost avoidance.

(2) CAFU System Audit Type Codes. 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 Table 2, Matrix of CAFU Audit Type Codes and DCAA Activity Codes, of this Manual.

g. Non-Reportable Audits. Non-reportable audits are not included in the DoD IG Semi-Annual Report to Congress. Non-reportable audits are those reports covering agreed-upon procedures, non-audit services, and audits of contractor estimates of future costs. Products resulting from non-audit services performed (i.e., memorandums, letters) are not audit reports and do not belong in the CAFU system. While there are no time requirements for resolution of non-reportable audits in accordance with DoDI 7640.02, it is DCMA policy that non-reportable audit records must be resolved within 6 months and dispositioned within 12 months of report issuance.

3.2. DCMA CAFU SYSTEM IMPORT OF DCAA DATA MANAGEMENT INFORMATION SYSTEM (DMIS) RECORDS.

a. Monthly Electronic Audit File. 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 DMIS to DCMA for import into the DCMA CAFU system, generally within the first 3 business 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. The DCMA HQ Monitor verifies all records are loaded properly. If errors are discovered, the HQ Monitor contacts the appropriate office to work the corrective action.

b. Reportable and Non-Reportable Audit Visibility. 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 DCAA audits are trackable and require disposition by the ACO. Therefore, the CAFU system should include a record for all reportable and non-reportable audits, as defined in the glossary. 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.

c. Manual Record Input. CAFU records are received from DCAA monthly. Therefore, there is a timing delay between the date of the audit report and the date the record is imported and captured in the DCMA CAFU system. The delay varies depending on when the audit report was issued. If the ACO 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 CMO or District (Region) CAFU Monitor (see paragraph 2.6.j. of this Manual). However,

routine manual entry of all DCAA records immediately upon receipt of the audit report is considered unnecessary and should 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.

d. CAFU Record Errors. 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) should be elevated to a CAFU Monitor at the District (Region) or HQ-level for assistance. Questions related to the audit or simple verification of data in a record are permitted, but ACOs and organizational components should not contact DCAA directly about CAFU system record problems unless instructed to do so by the CAFU Monitor at the component or HQ level. 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 DCMA CAFU records are snapshots of information; they are not a live feed. Changes and corrections to a specific record in DCAA's DMIS will not translate to changes in the record in the CAFU system.

e. Supplemental and Follow-Up 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. When a supplemental audit report is issued by DCAA, a corresponding record is imported to the CAFU system. The CAFU 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 is required on the original audit report. Follow-up audit reports (usually related to systems audits and issued in response to changes or corrective action) are issued with a new 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.

f. 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 PNMs, etc., the ACO should coordinate with the CMO CAFU Monitor to establish and manually enter separate CAFU records for each audit report number.

g. Classified Field Detachment Audits. Semiannually, DCAA Field Detachment sends a list of audits to DCMA Special Programs. This list is comprised of audits applicable to Special Programs, the Cost and Pricing Regional Command, and Operational Unit Directorates. The Special Programs Contracts Directorate will provide this list to each organizational component. Manual entry by DCMA is required because the DCAA Field Detachment does not enter audits into the CAFU system. The appropriate organizational component should ensure these audits are manually entered into the CAFU system.

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

a. Assignment of Audit Record. Upon receipt or entry of a new audit record in the CAFU

system, the ACO should promptly determine if 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 should consult first with the CMO CAFU Monitor before escalating to an organizational component or HQ-level CAFU Monitor.

b. Record Information for Verification. Upon workload acceptance (see paragraph 3.3.a. of this Manual), the ACO will ensure the information listed in Table 1 is current, accurate, and complete in the CAFU system. Some fields can be edited by the ACO, some fields can be edited by a CAFU Monitor, and some fields cannot be changed at all. The following fields cannot be edited or corrected: Audit Number, Audit Type, Audit Issue Date, Audit Received, DCAA Cost Questioned/Avoidance, and 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 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 to delete the record and refresh the system, after which the record can be manually re-entered with the correct information.

Table 1. 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)

Table 2: Matrix of CAFU Audit Type Codes and DCAA Activity Codes

CAFU CODE	AUDIT TYPE	ACTIVITY CODES
B	Business Systems Audits	11010, 11020, 11050, 11060, 11070, 11090, 11510, 12030, 12500, 13020, 14980, 17740 (post-award), 17741, 24010
C	Claims and Equitable Adjustments	17200
D	Post-award Audits	42000, 42097, 42098
E	Cost Accounting Standard (CAS) and Disclosure Statement Audits	19100, 19200, 194XX, 19500
F	Operation Audits and Operations Audits Follow-up	10501, 10502, 10503, 10601

G	Incurring Cost and Settlement of Final Indirect Cost Rates	10100, 10110, 10180, 17800, 17900, 17920
H	Pre-award Contract Audits	17740
I	Other	Reserved
J	Terminations	17100
K	Earned Value Management System Audits	17750, 17760

- a. "B" CAFU Audit Type codes are reportable if audit opinion cites the system as inadequate (significant deficiencies).
- b. "C," "F," "G," "I," and "J" CAFU Audit Type 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 October 1, 2015 or later.
- c. "E" 19100 and 194XX are reportable if CAS noncompliance. All 19200 audits are reportable. (19500 are reportable if total exception dollars are greater than zero.)
- d. "H" 17740 is reportable if audit opinion cites the system is not acceptable.
- e. "K" CAFU codes are reportable if audit contains conditions and recommendations.

SECTION 4: CAFU PROCEDURES

4.1. RESOLUTION OF AUDITS.

a. Resolution. An 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 4.1.e. of this Manual). See paragraph 4.1.g. of this Manual for additional guidance related to resolution of specific types of audits.

b. Time Requirement for Resolution. The ACO will 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 business system within 10 calendar days of receiving the audit report, as set forth by DCMA Manual (DCMA-MAN) 2301-01, "Contractor Business Systems (CBS)" 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 internal controls, and corrects cost accounting practices that do not comply with the cost accounting standards. Audits not resolved within the required timelines are considered "overage" for resolution. If an audit report is not resolved within the required timeframe, the ACO must 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 4.1.c.(6) of this Manual. For additional guidance on resolving non-reportable audits, see paragraph 4.1.g.(4) and Table 3.

Table 3. Resolution Time/Documentation Requirement

Audit Type	Resolution Time Requirement	Resolution Documentation
Business Systems	10 Calendar Days From Date of Audit Report*	Management Concurred with MFR and Notice of Initial Determination to Contractor
CAS Non-Compliance	15 Calendar Days from Date of Audit Report*	Either Management Concurred with MFR and Notice of Potential Non-Compliance to Contractor or Notice of Disagreement with Non-Compliance to DCAA.
Final Incurred Cost and Settlement of Final Indirect Rates	6 Months From Date of Audit Report	Management Concurred with PNOM or MFR**
All Other	6 Months From Date of Audit Report	Management Concurred with PNOM or MFR**
* CAFU eTool is not able to identify CAS and CBS audits as "overage for resolution" until 6 months from date of audit report. However, these audits will be considered overage based on the above resolution time requirements identified above.		
** MFR can only be used when there are no questioned costs.		

c. Audit Receipt and Review. Upon receipt of an audit report, the ACO must:

(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.

(2) Verify the CAFU tracking system record data is accurate. If an ACO receives an audit report but no corresponding CAFU record flows in the tracking system, the ACO must contact the CAFU Monitor for assistance in manually entering a record or researching if mis-assigned. Manual entry of records should be coordinated with HQ CAFU Monitor.

(3) 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.

(4) Coordinate in writing (email is sufficient) with the other Government agencies or DCMA CMOs that have negotiation responsibility over a portion of the findings or recommendations, if applicable.

(5) Establish estimated target dates for resolving and dispositioning reportable audits and document the dates in the CAFU system record (see CAFU eTool User Manual available on the Resource Page of this Manual). Enter a target resolution date in accordance with Table 3 and enter a target disposition date, in accordance with Table 4. Update the estimated "Revised Target Disposition" date as circumstances change and/or more information becomes available, and document the "Remarks" section accordingly.

(6) Documented remarks entered in the CAFU record should summarize the status of actions taken (or planned) to achieve resolution. If the records become overage, remarks must be updated monthly (see paragraph 4.1.b. of this Manual). At a minimum, remarks should be entered with the current date at the start of each entry and sequence of dates/events should read oldest to newest. Users are not required to retroactively revise the sequence of remarks entered for records established prior to the date of this Manual. 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 must document a reason for no change after 3 months/entries of "no change."

d. Procedures for ACO. During the Resolution process, the ACO must:

(1) Update the status of all audits within the "Remarks" section of the CAFU system record (see paragraph 4.1.c.(6) of this Manual). Within the CAFU system 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 system. 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 CAFU eTool User Manual available in the Job Aids section of the Resource Page for this Manual.) ACOs are also encouraged to use the milestone feature of the CAFU system for establishing goals, timelines, and documenting other significant events or issues requiring detailed explanation.

(2) Decide what position to take regarding each of the audit findings, whether to agree or disagree with DCAA. The ACO should fully consider all DCAA audit findings and recommendations including the assessment of penalties and interest, scope limitations and possible impact, if any, on negotiations, and obtain any required clarification to understand the results of the audit.

(3) Resolve the audit by documenting an action plan for addressing the audit findings in a PNOM or MFR. A MFR can only be used when the audit contains no questioned costs. For reports covering CAS noncompliances, resolution is achieved when the contracting officer issues a notice of potential noncompliance to the contractor. For audits covering business systems, resolution is achieved when the contracting officer issues a written initial determination. Indicate agreement or disagreement with each finding and/or recommendation, and document the rationale for any disagreement. If the ACO disagrees with the audit findings and the disagreement is based on an interpretation of a law or regulation, the ACO must consult with the supervisor and assigned legal counsel. The basis/rationale for the disagreement and the results of the consultations must be documented in the PNOM or MFR. The ACO must consult the “Boards of Review (BoR) General Practice” guide found on the main Resource Page of DCMA Instruction (DCMA-INST) 2201 to determine if a BoR is required.

(4) Consult with assigned legal counsel if the ACO’s determination/decision has the potential for a claim against the contractor. Any communications with legal counsel, verbal or written, should be documented and maintained in the official contract file. FAR 33.206 provides guidance that each claim by the Federal Government against a contractor relating to a contract should be submitted within 6 years after accrual of the claim. See DCMA-MAN 2501-09, “Contract Claims and Disputes,” and FAR 33.2 for specific guidance and applicability.

e. Management Review. All resolution documents identified in Table 3, Resolution Time/Documentation Requirement, of this Manual require management review and concurrence by the CMO Contracts Director or Director of the CACO/DACO Group. The Director of the CACO/DACO Group or CMO Contracts Director may delegate management review and concurrence as identified in the Management Review Matrix located on the Resource Page of this Manual. If the ACO proceeds without concurrence from management, the ACO will document the rationale for the action in the memorandum supporting the action.

f. CAFU Record Update for Resolution. Once an audit is resolved, update the CAFU record in the CAFU system with:

- (1) Actual Resolution Date.
- (2) Revised Target Disposition Date, if necessary.

(3) Updated/Revised “Remarks.”

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

(1) Contractor Business Systems Audits. For audit reports covering contractor business systems, resolution is achieved when the ACO receives management concurrence of the MFR/ initial determination and the contracting officer notifies the contractor in writing of the initial determination. The resolution date entered in CAFU is the date the ACO issued the written determination to the contractor. Higher-level regulations, policy, guidance, agreements, and/or DCMA business system subject matter instructions, particularly regarding timing requirements, must always be reviewed in conjunction with this Manual (e.g., DCMA-MAN 2301-01).

(2) CAS Related Audits. The ACO must follow the guidance in DCMA-MAN 2201-02, “Cost Accounting Standards (CAS) Administration,” and FAR Part 30, “Cost Accounting Standards (CAS) Administration for the resolution and disposition of CAS related audits and issues.”

(a) CAS Noncompliance Audits. For a CAS noncompliance audit, the ACO must either notify DCAA that they disagree with the alleged noncompliance, or issue a written notice of potential noncompliance to the contractor, and provide a copy of the notice to the auditor in accordance with FAR 30.605(b)(1). 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 Director of the CACO/DACO Group. The Director of the CACO/DACO Group or CMO Contracts Director may delegate management review and concurrence as identified in the Management Review Matrix located on the Resource Page of this Manual. The audit status is considered resolved after issuing the aforementioned notices and the “Actual Resolution Date” has been entered in the CAFU system record. See FAR 30.605 and DCMA-MAN 2201-02 for detailed guidance relating to CAS noncompliances. 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.

(b) 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 for guidance relating to Disclosure Statements.”

(3) Final Incurred Cost and Final Indirect Rate Settlement Audits. A PNOM or MFR may be used for resolution. The proper document is based on whether the audit report contains questioned costs which the ACO must take action on to resolve and disposition findings. ACOs will issue an MFR when there are no questioned costs identified in the audit report (negotiation not required); otherwise a PNOM is required. The ACO must indicate whether each finding or recommendation is agreed to and, if not, document the rationale for the disagreement. The ACO must coordinate with other government agencies that have a negotiation responsibility over a

portion of the findings or recommendations, including questioned direct costs, when resolving audit reports. The ACO must take into consideration whether penalties/interest may be applicable at the resolution stage. Audit reports which contain a signed rate agreement from DCAA may still need the ACO to take action to assess penalties and interest, if applicable.

(4) Non-Reportable Audits. The ACO must record a “Resolution Target Date” and an “Actual Resolution Date” within the CAFU record for all non-reportable audits. It is DCMA policy that non-reportable audit records must be resolved within 6 months. Resolution dates are required within the CAFU system record for the subsequent entry of disposition dates. Non-reportable audits are not included in DCMA performance metrics and are not included in the DoD IG Semiannual Report to Congress. A PNOM or MFR is not required for non-reportable audits requiring no action by the ACO, but comments must still be added to the CAFU record, per direction at paragraph 4.2.e.(5)(a) of this Manual.

4.2. DISPOSITION OF AUDITS.

a. Time Requirement for Disposition. The ACO must disposition reportable audits within 12 months of the audit report issuance date unless another regulation or policy provides for an earlier deadline. 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 must document why the reportable audit could not be dispositioned in the 12-month period in the “Remarks” section of the CAFU system, and document the actions taken to achieve disposition at least monthly. The ACO will also update the estimated “Revised Target Disposition” date as circumstances change and/or more information becomes available, and document the “Remarks” section accordingly. For additional guidance on dispositioning specific types of audits, see paragraph 4.2.e. and Table 4.

Table 4. Disposition Time/Documentation Requirement

Audit Type	Disposition Time Requirement	Disposition Documentation
Business Systems	30 Calendar days from Date of Receipt of Contractor’s Response to Initial Determination*	Management Concurred with MFR and Notice of Final Determination to Contractor
CAS Non-Compliance	12 months from Date of Audit Report	Either Management Concurred with MFR and Final Determination to Contractor or COFD
Final Incurred Cost and Settlement of Final Indirect Rates	12 months from Date of Audit Report	Management Concurred with PNM or MFR and Final Indirect Rate Agreement
All Other Audits	12 months from Date of Audit Report	Management Concurred with PNM or MFR and final decision document issued to contractor, if applicable
*CAFU eTool is not able to identify CBS audits as “overage for disposition” until 12 months from the date of audit report. However, these audits will be considered overage based on the above disposition time requirements.		

b. Remarks. Remarks entered in the CAFU record are meant to summarize the status of actions taken (or planned) to achieve disposition. If the record becomes overage, remarks should be updated monthly (see paragraph 4.2.a. of this Manual). At a minimum, remarks should be entered with the current date at the start of each entry and the sequence of dates/events and corresponding narrative should read oldest to newest. Users are not required to retroactively revise the sequence of remarks entered for records established prior to the date of this Manual. 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 must document a reason for no change after 3 months/entries of “no change.”

c. Record is Dispositioned and Closed in CAFU System. An audit is considered dispositioned and closed in the CAFU system and for performance metric purposes when all of the following have been performed:

(1) All settlement actions have taken place relative to the costs questioned or negative findings of an audit report, and

(2) The ACO completes and obtains management review and concurrence with the PNM, MFR, or other document dispositioning the audit, (see Management Review paragraph 4.2.g. of this Manual), and

(3) The ACO has executed any required contractual action (e.g., indirect rate agreement) and/or has issued a final determination/decision to the contractor, and

(4) A CAFU system email is generated and sent to DCAA and any other impacted Government Agency. The email must be sent within 30 calendar days of system-generation (issuance) and a copy of the PNM, MFR, and/or other dispositioning documents must be attached, and

(5) The following items are entered into the CAFU System:

(a) PNM, COFD, determination and/or an MFR is complete.

(b) Management/supervisor has reviewed and concurred with the PNM, COFD, final determination, or other documentation.

(c) Questioned costs sustained and/or penalty assessed amounts have been entered.

(d) “Actual Disposition Date” is entered and submitted.

(e) “Remarks” section is updated, as necessary.

(f) “Forward Date” is entered in the record (once forwarded, ACO can no longer access the record without CAFU Monitor assistance).

d. Settlement-Disposition Actions. The disposition of an audit is usually defined based on the type of audit; however, no audit will be dispositioned until the ACO has addressed all audit findings and recommendations. Disposition for most audits can be defined using the guidelines below.

(1) The ACO negotiates a settlement covering all audit issues (including the disposition of unresolved costs and the assessment of penalties and interest) with the contractor and executes any required contracting action (e.g., indirect rate agreement).

(2) The ACO issues a final determination/decision pursuant to FAR Subpart 33.2, “Disputes and Appeals.” If the contractor appeals to the Armed Services Board of Contract Appeals (ASBCA) within the 90-day time limit following the final determination/decision, the audit record must 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 must 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 will then reopen the CAFU audit file and update the status to deferred – litigation and include the docket number. For additional information on deferred audits, see paragraph 4.3. of this Manual.

(3) The ACO must make a written determination after all actions have been taken and no further actions can reasonably be anticipated:

- (a) A decision is rendered on an appeal made to the ASBCA or CoFC, and
- (b) Any corrective actions directed by ASBCA or the CoFC are complete, and
- (c) Any associated contractual documents are executed.

(4) The ACO’s written determination must be reviewed and concurred with by the CMO Contracts Director or Director of the CACO/DACO Group.. The Director of the CACO/DACO Group or CMO Contracts Director may delegate management review and concurrence as identified in the Management Review Matrix located on the Resource Page of this Manual.

e. Specific Audits. Additional disposition guidance is provided for the following types of audits:

(1) 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 is required on the original audit report. If the original record does not automatically close, contact the DCMA HQ CAFU Monitor for assistance. (See paragraph 3.3. of this Manual for additional information.)

(2) Contractor Business Systems Audits. For audit reports covering contractor business

systems, disposition is achieved when the ACO receives management concurrence of the MFR and final determination and the contracting officer notifies the contractor in writing of the final determination. The disposition date entered in CAFU is the date the ACO issued the written final determination to the contractor. The ACO will follow the guidance in DCMA-MAN 2301-01 for the disposition of business systems audits, including legacy audits. 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. Document the follow-up audit in progress in the legacy audit record.

(3) Indirect Rates (Final Overhead Incurred Cost Audit). The ACO will follow the guidance in DCMA-MAN 2201-03, "Final Indirect Cost Rates." The indirect rate/incurred cost audit is dispositioned when the ACO addresses all direct costs, negotiates a settlement covering all audit issues with the contractor, including the assessment of penalties and interest (see paragraph 4.4.b. of this Manual) and executes a signed indirect rate agreement. If an agreement cannot be reached, an audit is considered dispositioned when the ACO issues a COFD with a unilateral rate determination.

(a) Questioned Direct Costs. When questioned direct costs are included in an incurred cost audit addressed to a CACO/DACO, disposition of the CAFU record remains with the CACO/DACO. If all final indirect rates are settled and the questioned direct costs are still unsettled, the CACO/DACO must hold the CAFU record open until the questioned direct costs are settled. The CACO/DACO must add pertinent notes in the comments section of the open CAFU record. Such comments should describe why the record is still open and the current status of settlement of questioned direct costs. After the questioned direct costs are settled by the ACO or PCO, the ACO/PCO must provide a copy of the approved PNM to the CACO/DACO for use in dispositioning the audit in the CAFU system. If the audit is addressed to an ACO instead of a CACO/DACO, the ACO is responsible for applying the same procedures and keeping the audit open until all direct costs are settled.

(b) Intracompany Cost Allocations from a Home Office, Intermediate Home Office, or Shared Services Group. An indirect rate agreement cannot be signed until all corporate and home office cost allocations have been settled, if applicable. Exceptions: The ACO determines the allocations will have no material impact on the rates to be negotiated or established by the ACO, or the ACO determines the regulatory time limits (such as covered by FAR 4.804-1(a)(3) and FAR 33.206) will not allow for additional time to wait for the results of a pending audit. These exceptions must be documented in the PNM.

(c) 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 impacts the indirect rates.

(d) Contractor Out of Business. The ACO establishes unilateral rates documented in a MFR for an Out of Business contractor.

(e) Indirect Costs Reported on a DCAA Form 1, “Notice of Contract Costs Suspended and/or Disapproved.” If DCAA attaches a DCAA Form 1 to the final overhead audit report, 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-MAN 2201-03, Sections 3.10, “Settle DCAA Form 1 Issues and Disallowance of Cost Issues – Before a Cost is Incurred” and 3.11, “Settle DCAA Form 1 Issues and Disallowance of Cost Issues – After a Cost is Incurred.”

(f) Disclaimed Audit Opinion. For audit reports with a disclaimed opinion, the auditor may include an appendix titled “Other Matters to be Reported.” The appendix may contain fully developed audit findings but will refer to them as “non-compliant” costs. When the ACO receives an audit report with a disclaimed opinion and an appendix with non-compliant costs, they should address the non-compliant costs identified in the same manner as questioned costs in other audit reports.

(4) CAS Related Audits. The ACO will follow the guidance in DCMA-MAN 2201-02 and FAR Part 30 for disposition of CAS related audits and issues.

(a) 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 notifies DCAA of the determination and the basis for the determination in accordance with FAR 30.605(b)(3). If the contractor appeals to the ASBCA within the 90-day time limit subsequent to the COFD/Determination date, the audit record must be re-opened in the CAFU system 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 system record. The CDRC attorney will provide the ACO written notification of the appeal and include the docket number. The ACO will then reopen the CAFU audit file and update the status to deferred – litigation and include the docket number.

(b) Cost Impacts. For CAS cost impact audits, 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. The ACO must provide a copy of the PNM to DCAA and any affected contracting officers.

(5) Non-Reportable Audits.

(a) Disposition Procedures. The procedures for the disposition of non-reportable audits are the same as the procedures for the disposition of reportable audits. Non-reportable audits are not included in DCMA performance metrics and are not included in the DoD IG Semi-Annual Report to Congress. However, the ACO should disposition all non-reportable audits and should forward a copy of the PNM, MFR, or other documentation on the disposition of the audit, to DCAA and other impacted Government Agencies, (FAR 15.406-3, FAR 15.407-1(d), FAR 30.606(b)(2), FAR 49.110, etc.).

(b) Time Requirements for Disposition. The ACO will disposition all non-reportable

audits within 12 months of the audit report issuance date and should document actions taken to achieve disposition in the “Remarks” section of the CAFU system. (See paragraph 4.2.a. of this Manual.)

(c) Remarks. The ACO will enter remarks in the CAFU system on a monthly basis if the audit is not dispositioned in a timely manner. (See paragraph 4.2.b. of this Manual.)

f. Documentation Requirements. To disposition the audit, the ACO must document the following, if applicable, in a signed and dated PNM, COFD, determination, or MFR to the contract file, and must obtain management review and concurrence from the CMO Contracts Director or Director of the CACO/DACO Group. The Director of the CACO/DACO Group or CMO Contracts Director may delegate management review and concurrence as identified in the Management Review Matrix located on the Resource Page of this Manual.

(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 4.4.b. of this Manual), the ACO’s documentation must 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.

(2) Consultation with Assigned Legal Counsel 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 will consult with the supervisor and assigned legal counsel. Any communications with legal counsel, verbal or written, should be documented and maintained in the official contract file.

(3) Consideration of Regulations and Instructions. The ACO’s disposition documentation should demonstrate the ACO has considered all appropriate FAR, Defense Federal Acquisition Regulation Supplement (DFARS), and DCMA issuances related to the issue raised or questioned by DCAA.

(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 must consult with assigned legal counsel and document the file. FAR 33.206 provide “each claim by the Federal Government against a contractor relating to a contract should be submitted within 6 years after accrual of the claim.” See DCMA-MAN 2501-09 and FAR Subpart 33.2 for specific guidance and applicability.

(5) Final Decisions and Contractor Appeal. The ACO and the reviewing CMO Contracts Director or Director of the CACO/DACO Group must ensure, in preparing the COFD, advice is obtained from assigned legal counsel, the CDRC, and other advisors in accordance with DCMA-MAN 2501-09, DCMA-MAN 2201-02, and FAR 33.211. If the contractor subsequently appeals the final decision in the CoFC, the ACO must reopen the audit record in the CAFU system and put into a deferred status - litigation.

(6) Other Related Negotiations. Incorporate the negotiation results from other DCMA

organizational components, or other Government agencies, within the PNM.

g. Management Review. All disposition documents identified in Table 4, Disposition Time/Documentation Requirement, of this Manual require management review and concurrence by the CMO Contracts Director or Director of the CACO/DACO Group. The Director of the CACO/DACO Group or CMO Contracts Director may delegate management review and concurrence as identified in the Management Review Matrix located on the Resource Page of this Manual. If the ACO proceeds without concurrence from management, the ACO will document the rationale for the action in the memorandum supporting the action.

h. BoR. The ACO must obtain appropriate management review of contracting actions before negotiating or taking action to settle an issue, including the use of a BoR when required. The “BoR General Practice” guide is found on the main Resource Page of DCMA-INST 2201.

i. Forward Disposition Documentation. The ACO must 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 will print and/or maintain a copy of the email and the attachment. The email to DCAA should include wording to indicate a document is attached, or should state the exception for no document. A simple method to retain a copy of the email distributing the disposition documentation is to “cc” a copy to the users’ email account and include it in the audit report file.

4.3. DEFERRED AUDITS.

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

b. Follow-Up. When an audit becomes deferred, the ACO must follow-up with the assigned legal counsel or investigative service on a regular basis to obtain the updated status of the litigation or investigation. Regular basis is defined as every 3 months. The ACO must also document the progress within the “Remarks” section of the audit record.

c. Change in Deferred Status/Record Reinstated. Once the case is returned to the ACO for administrative disposition, the ACO must change the audit record to a “Dispositioned” status. The ACO must also 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.

4.4. QUESTIONED COSTS, PENALTIES AND INTEREST.

a. Questioned Costs. Questioned costs are the DCAA reported amount of audit exception, potential cost avoidance, recommended price adjustment or non-compliant costs identified in an audit with disclaimed opinion. 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 original questioned costs and confirmed with DCAA (i.e., supporting documentation was provided to the ACO during or just prior to negotiations). 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 will promptly and accurately report questioned costs sustained in conjunction with the disposition of reportable and non-reportable audits. The ACO must report the following questioned costs sustained amounts in the CAFU system without adjustment for commercial business or government participation (see Glossary):

(1) Questioned costs or amounts agreed to by the contractor during negotiations.

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

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

(5) 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.

b. Penalties and Interest. The ACO must take into consideration whether penalties/interest may be applicable or not at the PNOM stage. When negotiations are complete, the ACO must document in the PNM the final outcome of the negotiation and impact on penalties and interest, including changes in the ACO's decision regarding whether or not penalties are applicable. Assessment of penalties, and interest if applicable, and other demands for payment should be issued in accordance with FAR Subpart 32.6, "Contract Debts," 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 should always be provided to the contract payment office. The ACO should periodically follow-up with the payment office to determine whether the debt has been collected and credited to the correct appropriation(s).

(1) The ACO must assess penalties and interest (or document a waiver) in accordance with FAR 42.709, "Assessing the Penalty," if the contracting officer determines a contractor included costs that are expressly unallowable, or were previously determined to be unallowable, in its final indirect cost rate proposal. The amount of assessed penalties must be reported separately from the reported questioned costs sustained in the CAFU system. 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 Resource Page of this Manual. The DoDI 7640.02 states a record is considered dispositioned when the contracting officer issues a final determination pursuant to the disputes clause. FAR 42.709-3, "Assessing the Penalty," requires the assessment letter state the determination is a final decision under the Disputes clause of the contract. If the contractor appeals, the CDRC attorney will provide the ACO written notification of the appeal and include the docket number. The ACO must reopen the CAFU audit file and update the status to deferred - litigation and include the docket number.

(2) The ACO will collect interest assessed on overpayments resulting from post award cost or pricing data on DoD contracts in accordance with Section 2306(a) of Title 10, United States Code (U.S.C.) and FAR 15.407-1(b)(7).

(3) The ACO will 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. A template for a COFD and Demand for Payment of Debt is provided on the Resource Page of this Manual.

4.5. PERFORMANCE EXPECTATION.

a. **Standard CAFU Performance Expectation.** 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 expectation to be communicated to each employee (included in each performance plan) to ensure a shared understanding of the employee's expected contribution toward mission accomplishment. The CMO Commander/Director will ensure all acquisition officials within their chain of command, involved with CAFU, are properly rated on the performance expectations related to the scope of their assigned duties and responsibilities. See the Resource Page for Performance Expectations.

b. If the CMO Contracts Director or the Director of CACO/DACO Group determines an 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 should first address the concern with counseling or training. If these steps fail or are determined to be ineffective, the Director should immediately submit a recommendation to terminate the ACO's appointment to DCMA Contracts Directorate (DCMA-AQ), with a copy to the CMO Contracts Director, Region Directorate or to the Director, Cost and Pricing Regional Command, as applicable.

4.6. RECORDS RETENTION.

a. **Time Requirement.** CAFU records must 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.

b. Retention Procedure. The ACO must maintain copies of all final versions of audit reports, MFRs, written communications, legal advice, management review documents, written notices, and final decision documents relied on and generated during the resolution and disposition process. Additionally, the ACO must ensure all these records are maintained as required by DCMA Manual 4501-04, "Records Management," and any other DCMA records retention guidance.

GLOSSARY

G.1. DEFINITIONS.

Adverse Opinion. An audit opinion containing the statement that the auditor encountered scope limitations and FAR/CAS deficiencies resulting in the subject matter of an assertion not being presented in all material respects in accordance with the established criteria.

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.

Disclaimer of Opinion. Used when auditors cannot express an opinion. A disclaimer of opinion states that the auditor does not express an opinion on the subject matter under audit. A disclaimer is appropriate when the auditor has not performed an audit sufficient in scope to enable him or her to form an opinion on whether the subject matter is in accordance with the stated criteria. Some examples of why an auditor cannot express another type of opinion would be: when books of accounts are not appropriately maintained, contractors impede the auditors from performing one or more audit procedures, and when the auditors are unable to perform procedures they believe are necessary. This type of audit opinion is also used when the auditor cannot complete the audit to the extent required of Generally Accepted Government Auditing Standards due to time limitations or other factors beyond the auditor's control.

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

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 percent Commercial and 40 percent Government. The government participation would be \$40 or 40 percent.

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. CoFC, the Court of Appeals for the Federal Circuit, or the United States Supreme Court.

Non-Reportable Audits. Audits covering agreed-upon procedures or audits of contractor

estimates of future costs. Products resulting from non-audit services are not audit reports and do not belong in the CAFU system.

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.

Qualified Opinion. A qualified opinion states, except for the effects of the matter to which the qualification relates, the subject matter of the assertion is in compliance with the established criteria (e.g., FAR/DFARS).

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 CAFU system, the questioned costs are unadjusted for government participation.

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 should 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. It also includes those questioned costs that

are disallowed in a COFD. Contracting officers report costs sustained, penalties, and interest separately in the CAFU system 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 system.

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. 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:

- Contractor estimates of future costs (Audit related activity codes: 21000, 22000, 23000, 27010, 28000 and 28500)
- Agreed-upon procedures (Audit related activity code of 17900, audits titled as Agreed-upon Procedures)
- Non-audit services (will not be in an audit report format and do not belong in the CAFU system. 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.

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 reports covering CAS noncompliances, resolution is achieved when the contracting officer issues a notice of potential noncompliance to the contractor. For audits covering business systems, resolution is achieved when the contracting officer issues a written initial determination.

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.

Unqualified Opinion. An unqualified opinion states, except for the effects of the matter to which the qualification relates, the subject matter of the assertion is in compliance with the established criteria (e.g., FAR/DFARS).

GLOSSARY

G.2. ACRONYMS.

ACO	Administrative Contracting Officer
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 System
CDRC	Contract Disputes Resolution Center
CMO	Contract Management Office
CoFC	U.S. Court of Federal Claims
COFD	Contracting Officer's Final Decision
DACO	Divisional Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DCAA Form 1	Notice of Contract Costs Suspended and/or Disapproved
DCMA-MAN	DCMA Manual
DCMA-INST	DCMA Instruction
DCMAI	DCMA International
DFARS	Defense Federal Acquisition Regulation Supplement
DMIS	DCAA Management Information System
DoD IG	DoD Office of the Inspector General
FAR	Federal Acquisition Regulation
HQ	Headquarters
IWAM	Internal Web Access Management
MFR	Memorandum for Record
PNM	Price Negotiation Memorandum
PNOM	Pre-Negotiation Objective Memorandum

REFERENCES

DCMA-MAN 2201-02, "Cost Accounting Standards (CAS) Administration," February 7, 2019
DCMA-MAN 2201-03, "Final Indirect Cost Rates," February 14, 2019
DCMA-MAN 2301-01, "Contractor Business Systems," TBD
DCMA-MAN 2501-09, "Contract Claims and Disputes," March 26, 2018
DCMA-MAN 4501-06, "Records Management," TBD
Defense Federal Acquisition Regulation Supplement (DFARS), current edition
DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013
DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," April 15, 2015
Federal Acquisition Regulation (FAR), current edition
United States Code, Title 10, Section 2306a(e)