



## DCMA Manual 2201-04 Contract Audit Follow-Up

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<b>Office of Primary Responsibility</b>	<b>Indirect Cost Control Capability</b>
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<b>Internal Control:</b>	Process flow and key controls are located on the Resource Page
<b>Labor Codes:</b>	Located on the Resource Page
<b>Resource Page Link:</b>	<a href="https://dod365.sharepoint-mil.us/sites/DCMA-BCF-Indirect_Cost_Control/SitePages/2201-04r--Contract-Audit-Follow-Up-(CAFU)-.aspx">https://dod365.sharepoint-mil.us/sites/DCMA-BCF-Indirect_Cost_Control/SitePages/2201-04r--Contract-Audit-Follow-Up-(CAFU)-.aspx</a>
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**Purpose:** This issuance, in accordance with the authority in DoD Directive 5105.64, “Defense Contract Management Agency (DCMA)”:

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

## SUMMARY OF CHANGES

This Manual has been rewritten. Agency users and stakeholders should read this Manual in its entirety. The following identifies the most notable changes:

- Restructured the manual to flow according to the Contract Audit Follow-Up pipeline
- Established a strongly recommended Contract Audit Follow-Up checklist which includes a Direct Questioned Cost Spreadsheet
- Established a process for locating procurement contracting officers and/or dealing with non-responsive procurement contracting officers by escalating through the Customer Engagement Division
- Established a process for external transfer of Contract Audit Follow-Up records
- Established a process to delete Contract Audit Follow-Up records
- Clarified and enhanced the definitions of “reportable” and “non-reportable” audits
- Established the need for Special Program administrative contracting officers to coordinate with Defense Contract Audit Agency Field Detachment to confirm all direct costs have been settled
- Established requirement that communications with procurement contracting officers/ administrative contracting officers regarding settlement of direct questioned costs be in writing and maintained in the official file
- Established the requirement that the administrative contracting officers is to confer with legal counsel and/or the investigative service to determine if they can work on any aspect of the audit while the investigation is ongoing
- Established the requirement that status inquiries with legal counsel or the investigative service regarding deferred audits are to be in writing
- Revised the Resolution and Disposition Table to include Cost Accounting Standards cost impact audits and disclosure statements, incorporated related subject matter manuals and further clarified timelines, and required documents for resolution and disposition
- Established that the first page of all Memorandums for records and Pre-Negotiation Objective Memorandums must be on DCMA letterhead
- Clarified a Memorandums for record can only be used in lieu of a Pre-Negotiation Objective Memorandum or Price Negotiation Memorandum when negotiations are not required
- Clarified the need to consult with legal counsel and document recommendations regarding Statute of Limitations, and/or the legal basis for the resolution when there is a disagreement with the reported findings or recommendations based on interpretation of law or regulation
- Established minimum requirements to resolve the audits and update the Contract Audit Follow-Up system
- Established the administrative contracting officer is responsible to protect the Government’s interest, even if it results in the audit becoming overage for disposition
- Established minimum requirements to disposition the audits and update the Contract Audit Follow-Up system
- Expanded on forwarding and distribution requirements
- Clarified the process for execution of final indirect rate agreements when flow-downs are involved
- Included information on subcontractor audits concerning incurred costs, Cost Accounting Standards, business systems, and terminations

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## 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. This Manual **MUST** be used in conjunction with the applicable subject matter manual(s). See Table 3 for audit types and corresponding manual(s).

**1.2. POLICY.** It is DCMA policy to:

a. Comply with the policy and procedures for follow-up on contract audit reports as prescribed in DoD Instruction (DoDI) 7640.02, "Policy for Follow-Up on Contract Audit Reports," using the Contract Audit Follow-Up (CAFU) System and the procedures within this Manual.

b. Ensure CAFU is maintained with current and accurate information for the DoD Inspector General (DoDIG) semiannual (March and September) pull of reportable CAFU Records for Congress.

c. 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, as prescribed in DoDI 7640.02.
- 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 (ACO) 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 of Contracts will:

- a. Designate a headquarters (HQ) CAFU Monitor.
- b. Provide targeted training to the DCMA contracting community in response to systemic audit findings.

### **2.3. COMPONENT/REGIONAL DIRECTORS.** The Component/Regional Directors will:

- a. Ensure management officials throughout their Command/Region understand the value of the audit process and are responsive to audit findings and recommendations.
- b. Ensure all acquisition officials within their chain of command, involved with CAFU, are rated on the performance expectations related to the scope of their assigned duties and responsibilities.

**2.4. CONTRACT DIRECTORS FOR EASTERN, CENTRAL, WESTERN, AIRCRAFT INTEGRATED MAINTENANCE OPERATIONS, INTERNATIONAL AND SPECIAL PROGRAMS COMMAND; DIRECTOR, CORPORATE ADMINISTRATIVE CONTRACTING OFFICER/DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER DIVISION; DIRECTOR, SPECIAL PROGRAMS COMMAND, CORPORATE ADMINISTRATIVE CONTRACTING OFFICER/DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER GROUP; AND DIRECTOR, TERMINATIONS GROUP.** The Contract Directors for the Eastern, Central, Western, Aircraft Integrated Maintenance Operations, International and Special Programs Command; Director, Corporate ACO (CACO)/Divisional ACO (DACO) Division; Director, Special

Programs Command, CACO/DACO Group; and Director, Terminations Group will:

- a. Designate a Command/Group/Division CAFU Monitor (known as “District Monitor” in the Internal Web Access Management (IWAM) System).
- b. Provide follow-up training and reminders to personnel on CAFU reporting requirements.

**2.5. CONTRACT MANAGEMENT OFFICE CONTRACTS DIRECTORS.** The Contract Management Office (CMO) Contracts Directors will:

- a. Oversee the CAFU requirements as prescribed in DoDI 7640.02, and this Manual.
- b. Review ACO actions, decisions, letters, and memorandums (reference Table 3).
- c. Assign a CMO level CAFU Monitor.
- d. Ensure all acquisition officials within their chain of command have performance standards that address the timeliness and effectiveness in resolving and dispositioning audit findings and recommendations.

**2.6. COST AND PRICING REGIONAL COMMAND GROUP DIRECTORS.** The Cost and Pricing Regional Command Group Directors will:

- a. Oversee the CAFU requirements as prescribed in DoDI 7640.02, and this Manual.
- b. Assign a Group level CAFU Monitor.
- c. Ensure all acquisition officials within their chain of command have performance standards that address the timeliness and effectiveness in resolving and dispositioning audit findings and recommendations.

**2.7. FIRST LINE SUPERVISORS.** The First Line Supervisors (FLS) will:

- a. Oversee the CAFU requirements as prescribed in DoDI 7640.02 and this Manual.
- b. Review ACO actions, decisions, letters, and memorandums (reference Table 3).
- c. Review and sign the highly recommended CAFU Checklist at the Resolution, Disposition, and Deferred stages, or document and retain other means of supervisory follow-up on CAFU records.
- d. Ensure all acquisition officials within their chain of command have performance standards that address the timeliness and effectiveness in resolving and dispositioning audit findings and recommendations.
- e. Assign a Group level CAFU Monitor for their respective teams if the FLS is within the Cost and Pricing Regional Command.

**2.8. ADMINISTRATIVE CONTRACTING OFFICER, DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER, DIVISIONAL ADMINITRATIVE CONTRACTING OFFICER, TERMINATION CONTRACTING OFFICER (HEREIN AND COLLECTIVELY REFERRED TO AS ADMINISTRATIVE CONTRACTING OFFICER).** The ACO will:

- a. Maintain the CAFU record and not delegate it to another functional specialist. If the ACO transfers to a new role or leaves the agency, the record needs to be transferred to the new cognizant ACO or the FLS if an ACO has not been appointed.
- b. May complete the highly recommended CAFU Checklist, located on the Resource Page.
- c. Ensure all audits are assigned and recorded in the CAFU system and contain accurate information.
- d. Establish and update estimated target dates for resolving and dispositioning each audit.
- e. Resolve and disposition audit findings and recommendations in a timely and effective manner in accordance with Table 3.
- 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 Federal Acquisition Regulation (FAR) 42.709, "Penalties for Unallowable Costs."
- g. Coordinate with the other Government agencies and/or DCMA ACOs that have negotiation responsibility over a portion of the audit findings or recommendations.
- h. Consult with legal counsel when there are concerns regarding Statute of Limitations (SoL) and/or the legal basis for the resolution and disposition when there is a disagreement with the reported findings/recommendations based on interpretation of law or regulation.
- i. Report and/or verify questioned direct and indirect costs, sustained amounts, penalties, and interest in the CAFU System.
- j. Provide a copy of the audit disposition document (e.g., Price Negotiation Memorandum (PNM), Contracting Officer's Final Decision (COFD), Final Determination, Memorandum for record (MFR), or other dispositioning documentation) to the Defense Contract Audit Agency (DCAA) auditor and other affected Government offices, as applicable.
- k. Retain audit follow-up records in the Agency's approved electronic database, which is currently electronic Documents and Records Management System, for a minimum of 6 years and 3 months after payment of the last contract affected by the audit (see Section 5).
- l. Coordinate with a CMO, District, or HQ CAFU Monitor to add, delete, or externally transfer audit records in the CAFU system, as applicable.

**2.9. CONTRACT AUDIT FOLLOW-UP MONITORS.** The CAFU Monitors will:

- a. Assist the components with monitoring, editing/correcting, transferring, and general governance of CAFU records. CMO Monitors have the capability to add records into the CAFU system; District Monitors have the capability to both add and delete records; and HQ Monitors have the capability to add, delete, and transfer CAFU records externally.
- b. Serve as a CAFU Subject Matter Expert. HQ-level CAFU Monitors oversee the system, serve as subject matter experts regarding the policies and CAFU system, coordinate record transfers between DCMA and the military services, and coordinate the resolution of CAFU system issues.
- c. Perform monthly checks of CAFU to identify new records and inform ACOs of those records.



## SECTION 3: CONTRACT AUDIT FOLLOW-UP SYSTEM

### 3.1. GENERAL INFORMATION.

a. DCMA maintains an electronic system of record (currently known as the CAFU system) to track all DCAA audit reports pursuant to DoDI 7640.02. The CAFU system is used to capture, segregate, and report on both reportable and non-reportable audit records. The CAFU system must include a record for all reportable and non-reportable audits to ensure visibility, prompt follow-up action, and audit disposition. Refer to the Glossary for the definitions of reportable and non-reportable audits.

b. CAFU Pipeline. The CAFU Pipeline is defined as the work flow that an audit goes through in the CAFU process. Each activity in the workflow is referred to as a position in the pipeline. The CAFU system promptly updates 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. ACOs are encouraged to use the milestone feature of the CAFU system for establishing goals, timelines, and documenting other significant events or issues requiring detailed explanation. See the CAFU User Manual located on the Resource Page for additional guidance.

c. Host Nation Agreement. Due to Host Nation Agreements with reciprocal audit services performed by non-United States Government organizations, the DCMA International Outside the Continental United States CMOs should follow DCMA International Business Practices and local Standard Operating Procedures. Refer to the Resource Page for a link to this guidance.

#### d. System Access.

(1) Internal User. DCMA personnel access to the CAFU system is enabled by supervisory approval within the DCMA IWAM System. In IWAM, there are four levels of CAFU User Access: ACO, CMO Monitor, District Monitor, and HQ Monitor. The CAFU User Manual, located on the Resource Page, provides a Matrix of CAFU Functions and Capabilities by Role/User on page 10. User access is designated as follows:

(a) ACO – Access assigned by supervisor.

(b) CMO Monitor – Access assigned by CMO Contracts Director or Supervisor of the CACO/DACO Division.

(c) District Monitor – Access assigned by the Contract Directors for the Eastern, Central, Western, Aircraft Integrated Maintenance Operations, International and Special Programs Command; Director, CACO/DACO Division; or Director, Terminations Group.

(d) HQ Monitor – Access assigned by the Director of Contract Policy.

(2) External User (Air Force, Army, Navy, 4th Estate Agencies, DCAA, and DoD IG). Access to the CAFU system and/or reports is enabled by approval through the DCMA External Web Access Management (EWAM) System. The ACO may need to provide the external users a copy of the EWAM User Manual, as well as the name and contact information of the external CAFU representative, both of which are located on the Resource Page.

e. CAFU Training and Guidance. Refer to Resource Page for supplemental guidance, tools, best practices, training links, etc.

### **3.2. DCMA CONTRACT AUDIT FOLLOW-UP SYSTEMS IMPORT OF DEFENSE CONTRACT AUDIT AGENCY DATA MANAGEMENT INFORMATION SYSTEM RECORDS.**

a. Monthly Electronic Audit File. The DCAA field offices issue individual audit reports directly to DCMA ACOs. In addition, the DCAA HQ sends a monthly electronic summary file of reportable and non-reportable audits as captured by the DCAA Management Information System (DMIS) to DCMA for import into the DCMA CAFU system, generally within the first ten business days of each month.

b. DCAA Subcontractor Audits. ACOs are to process subcontractor audits as follows:

(1) Incurred costs - Subcontractor assist audits are not entered into CAFU. These audits are requested by the DCAA office responsible for the prime contractor. If the assist audit discloses material questioned costs, the DCAA office for the prime contractor generally incorporates the subcontractor assist results into the prime audit. If the prime audit has already been released, DCAA generally issues a supplemental report incorporating the assist audit findings.

(2) Cost Accounting Standards (CAS) - Subcontractor audits are entered in CAFU and maintained by the ACO cognizant of the subcontractor. See FAR 30.607, Subcontract administration.

(3) Business systems – Subcontractor audits are entered in CAFU and maintained by the ACO cognizant of the subcontractor. Refer to DCMA Manuals 2301-01, “Contractor Business Systems,” and 2303-01, “Surveillance,” for possible required coordination with other ACOs.

(4) Terminations – ACOs may request assist audits on behalf of the prime contractor. Upon receipt of the audit, the ACO must provide redacted (removal of subcontractor proprietary information) summary results to the prime contractor.

c. Supplemental Audits. When DCAA issues audit reports that supersede or update a previously issued report, the audits have the original audit report number with the addition of an -S1, -S2, etc. at the end, and a corresponding record is imported to the CAFU system. The CAFU system automatically dispositions the original audit and reports \$0.00 in the Updated Cost Questioned/Avoidance and Sustained Amount fields on the original record. This process is fully automated and no ACO action is required on the original audit report.

d. Manual Record Input. CAFU records are received from DCAA 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 CAFU system. If the ACO receives an audit report not included in the subsequent monthly CAFU file import, the ACO will request the CAFU Monitor for their CMO or Team manually enter the record. An audit input form is available on the Resource Page to assist the CMO Monitor in entering the record. Additionally, the following audits require manual input:

(1) Multiple Audits in One CAFU Record. If DCAA performs a multi-year incurred cost audit, one report is typically issued; however, the report typically contains multiple audit report numbers for each contractor fiscal year audited. A CAFU record must be established for each audit report number. The ACO will coordinate with the CMO CAFU Monitor to establish and manually enter separate CAFU

records for each audit report number.

(2) Field Detachment Audits. Manual entry by DCMA is required because the DCAA Field Detachment does not enter classified or unclassified audits into the CAFU System and their data does not flow through DMIS into the DCMA CAFU System. The ACO will coordinate with the CMO CAFU Monitor or District Monitor and request the record be entered immediately upon receipt of the audit report. Additional information/guidance can be found on the Resource Page.

e. External Transfer of CAFU Records to Procuring Contracting officers (PCO).

(1) Transferring Records to the PCO. The ACO will confirm the PCO has access to the CAFU system before the record can be transferred. If the PCO does not have access, the ACO must send the PCO the EWAM End User Manual and their CAFU representative's contact information, both located on the Resource Page.

(2) PCO Confirms Access to the CAFU System. Once the PCO confirms access to the system and acknowledges via email the pending transfer of the record, the ACO will forward that email to their Command CAFU point of contact (POC), identified on the Resource Page.

(3) Command POC Notifies HQs CAFU Monitor. If the Command CAFU POC concurs with the transfer, they will forward the PCO's acknowledgment email and request for transfer to the HQ CAFU Monitor for action.

f. CAFU Record Errors. 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 do not translate to changes in the record in the CAFU system. Therefore, it is important the CAFU record be updated with accurate information (reference Paragraph 4.1.b.).

g. CAFU System Audit Type Codes. Audit Type Codes are based on the DCAA Activity Code, which are digits 10-14 of the audit report number. A matrix of CAFU Audit Type Codes and DCAA Activity Codes is provided in Table 1.

**Table 1. Matrix of CAFU Audit Type Codes and DCAA Activity Codes**

<b>CAFU CODE</b>	<b>AUDIT TYPE</b>	<b>ACTIVITY CODES</b>
B	Business Systems Audits	11070, 11090, 12500, 17741, 24010
C	Claims and Equitable Adjustments	17200
D	Post-award Audits	42000
E	CAS and Disclosure Statement Audits	19100, 19200, 194XX, 19500
F	Operation Audits and Operation Audits Follow-Up	10501, 10502, 10503
G	Incurred Cost and Settlement of Final Indirect Cost Rates	10100, 10110, 10160, 10180, 17800, 17900, 17920
H	Pre-award Contract Audits	17740
I	Other	23300
J	Terminations	17100
K	Earned Value Management System Audits	N/A

## SECTION 4: CONTRACT AUDIT FOLLOW-UP PROCEDURES

### 4.1. ASSIGN AND PLANNING STAGES OF THE CONTRACT AUDIT FOLLOW-UP PIPELINE - VERIFICATION OF INFORMATION IN THE CONTRACT AUDIT FOLLOW-UP RECORD – ALL AUDITS.

a. Assignment of CAFU Record. Upon receipt or entry of a new audit record in the CAFU system, the ACO must determine if the record has been correctly assigned to them. If incorrectly assigned, the ACO should transfer the record to the correct ACO and coordinate with the CAFU Monitor only when necessary. See Paragraph 3.2.e for guidance on external transfers. If the record was generated in error, the ACO must notify the CAFU Monitor who should coordinate with DCAA. Upon receipt of written confirmation from DCAA that the record was generated in error, the CAFU Monitor will submit a CAFU Record Deletion Request Form (located on the Resource Page) to their District CAFU Monitor. CMO CAFU Monitors must check monthly for new assignments and let ACOs know of their assignments.

b. Planning/Verification of Data in CAFU System. Upon acceptance of the CAFU record, the ACO may begin utilization of the highly recommended CAFU Checklist. The ACO must validate the information listed in Table 2 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 edited at all. The following fields cannot be edited:

- Audit Number
- Audit Type
- Audit Issue Date
- Audit Received
- DCAA Cost Questioned/Avoidance
- Questioned Cost Subject to Penalty

For the above fields, discuss/confirm the error with the DCAA auditor. If the Audit Number, Audit Type, and/or Audit Issue Date are incorrect, print a copy of the existing record and request a District or HQ-level CAFU Monitor delete the record, after which the record can be manually re-entered with the correct information. The CAFU Deletion Request Form is located on the Resource Page. If the Audit Received Date or Questioned Cost Subject to Penalty have been confirmed to be an error, the ACO must make a note in the “Remarks” section stating there is an error and include the correct information. If the ACO confirms the amount reported in the DCAA Cost Questioned/Avoidance field is incorrect, the ACO must enter the correct amount in the Updated Cost Questioned/Avoidance field during the resolution stage of the CAFU Pipeline. If unable to edit or correct other fields, the ACO must then contact the assigned CAFU Monitor for assistance in resolving the issue.

**Table 2. CAFU Record Information to be Verified**

Audit Report number
Audit Report date
Contractor name and Commercial and Government Entity (CAGE) code
DoD Activity Address Code (DoDAAC)
Type of Audit Code (refer to Table 1)
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)

#### **4.2. RESOLUTION STAGE OF THE CONTRACT AUDIT FOLLOW-UP PIPELINE (I.E., PLAN OF ACTION STAGE).**

a. Resolution of Reportable Audits. 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 4.2.e). The ACO is responsible for ensuring compliance with other DCMA manuals and/or regulations, as applicable (refer to Table 3). The first page of the PNOM/MFR must be on DCMA letterhead.

b. Time Requirement for Resolution of Reportable Audits. The ACO will resolve reportable audits in accordance with Table 3. Timely resolution of DCAA audit reports is critical for ensuring the Government promptly recoups unallowable costs, improves contractor internal controls, and corrects cost accounting practices that do not comply with the CAS. 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 4.2.d.(5).

c. Resolution of Non-Reportable Audits. To be consistent with DoDI 7640.02, it is DCMA policy that non-reportable audit records are resolved within 6 months. A PNOM or MFR is not required for non-reportable audits requiring no action by the ACO, but actual resolution, disposition, and forward dates must be entered into the CAFU record along with a brief description of the circumstances in the “Remarks” section. The ACO should forward any disposition documents in an email to the DCAA author of the audit and to the ACO’s FLS.

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

(1) Read and thoroughly review the audit report to gain an understanding of the overall effort required to resolve and disposition the audit.

(2) Consult with legal counsel and document recommendations, in writing, when there are concerns regarding SoL, and/or the legal basis for the resolution when there is a disagreement with the reported findings/recommendations based on interpretation of law or regulation. The ACO’s supervisor should be copied on the initial communication with Legal.

(3) Conduct fact-finding, fully consider all DCAA audit findings/recommendations, and obtain clarification from DCAA to form an understanding of the auditor's findings/recommendations. Engage in discussions with the contractor and obtain other documentation to assist in formalizing the negotiation position. If there are disagreements or concerns that occur during discussions with the assigned auditor, ensure elevation to supervisor to resolve issues before proceeding with disposition steps. If the ACO identifies additional unallowable costs not identified in the audit report, the ACO must update the questioned cost avoidance field, notify DCAA and enter a remark in the CAFU System. Negotiations will take place after the PNOM has been written by the ACO and signed by appropriate management chain of command.

(4) Coordinate in writing with other Government agencies and/or DCMA ACOs who have negotiation responsibility over a portion of the findings or recommendations, if applicable (i.e., questioned direct costs). Initial, periodic follow-up, major updates and final negotiation position communication must be documented on a questioned direct cost spreadsheet. A questioned direct cost spreadsheet is included with the CAFU checklist on the CAFU Resource Page. Upon initial written contact with the PCOs/ACOs, the ACO must inform the PCOs/ACOs of the timeline requirements and will follow-up at a minimum of every three months. The Resource Page contains information/guidance on locating PCOs and the process for escalating issues through the Customer Engagement Group when PCOs are non-responsive.

(5) Document Remarks in the CAFU record to summarize the status of actions taken or planned to achieve resolution and disposition. Specify the document(s) that constitute the resolution and disposition as well as the date of execution; refer to Table 3. Delays in meeting the timeframes for resolution and disposition must be documented in the contract file and the CAFU record remarks section. If the records become overage, remarks must be updated monthly. Remarks must be entered with the current date at the start of each entry, and the sequence of dates/events can read oldest to newest (i.e., remarks read like a book) or newest to oldest. Users are not required to retroactively revise the sequence of remarks entered for records established prior to March 3, 2019 (the effective date of the previous CAFU Manual 2201-04 which implemented this process). Remarks must 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 consecutive months/entries of "no change."

(6) Resolve the Audit by documenting an action plan for addressing the audit findings in a PNOM or MFR as required by Table 3. The PNOM/MFR must be well documented to include the following, if applicable:

- Rationale for agreement or disagreement with each audit finding and/or recommendation with descriptive and thorough analysis on what was reviewed/considered when not sustaining DCAA's questioned cost
- Consideration of all the facts from DCAA, the contractor, FAR, applicable manuals, regulations, data, etc.
- Incorporation of legal opinion when disagreement is based on an interpretation of law or regulation
- Description of contractor's supporting documentation and regulations relied upon to achieve negotiation position or initial determination
- Identification and rationale for expressly unallowable costs subject to penalty

- Identification of scope limitations, unresolved subcontracting cost(s), and other matters to consider (e.g., unresolved CAS noncompliances and/or internal control deficiencies) including the impact on negotiations
- DCAA’s opinion on supplemental information/documentation provided by the contractor after issuance of audit report
- Coordination with other Government agencies that have negotiation responsibility over a portion of the findings or recommendations (e.g., questioned direct costs)
- Board(s) of Review recommendations

e. Coordinate management review and concurrence of all resolution documents, identified in Table 3. The FLS may sign off on the Resolution Stage of the highly recommended CAFU checklist prior to the ACO proceeding to the next position in the CAFU pipeline in order to properly document review and clearance actions.

f. Update the following fields in the CAFU Record for Resolution:

- Update the Updated Cost Questioned/Avoidance field, if necessary
- Resolution Actual Date
- Revised Disposition Target Date, if necessary
- Remarks (specify the document(s) that constitute the resolution and the date of execution; refer to Table 3)

**Table 3. Resolution and Disposition Requirements**

Audit Type	Time Requirement	Documentation*	Actual Date in CAFU System
<p><b>Business Systems</b></p> <ul style="list-style-type: none"> <li>• DCMA Manual 2301-01, “Contractor Business Systems”</li> <li>• DCMA Manual 2303-01, “Surveillance”</li> <li>• DCMA Manual 2201-05, “Boards of Review”</li> <li>• DCMA Manual 2501-09, “Contract Claims and Disputes”</li> </ul>	<p><b>Resolution:</b> 10 Calendar Days from Date of Audit Report</p> <p><b>Disposition:</b></p> <ul style="list-style-type: none"> <li>• 10 Calendar Days from the date of the audit report if no significant deficiencies exists</li> <li>• 30 Calendar Days from Date of Receipt of Contractor’s Response to Initial Determination (unless an extension was granted in accordance with DCMA Manual 2301-01)</li> </ul>	<p><b>Resolution:</b></p> <ul style="list-style-type: none"> <li>• Management Concurrence of MFR and Notice of Initial Determination/Final Determination to the Contractor.</li> <li>• If no significant deficiencies exists, in lieu of an initial determination, the ACO must issue a final determination within 10 calendar days from the date of the audit report.</li> </ul> <p><b>Disposition:</b> Management Concurrence of MFR and Notice of Final Determination to Contractor</p>	<p><b>Resolution:</b></p> <ul style="list-style-type: none"> <li>• Date the Initial Business System Determination/Final Determination was issued to the Contractor.</li> <li>• If no significant deficiencies exists, in lieu of an initial determination, the ACO must issue a final determination within 10 calendar days from the date of the audit report.</li> </ul> <p><b>Disposition:</b> Date Final Business System Determination issued to the Contractor</p>



<p><b>CAS</b></p> <ul style="list-style-type: none"> <li>• DCMA Manual 2201-02, “Cost Accounting Standards Administration”</li> <li>• DCMA Manual 2501-10, “Contract Debts”</li> <li>• DCMA Manual 2201-05, “Boards of Review”</li> <li>• DCMA Manual 2501-09, “Contract Claims and Disputes”</li> </ul>	<p><b>Resolution:</b></p> <ul style="list-style-type: none"> <li>• <b>CAS Noncompliance Audits</b> - 15 Calendar Days from Date of Audit Report</li> <li>• <b>CAS Cost Impact Audits</b> – 6 Months from Date of Audit Report</li> <li>• <b>Disclosure Statement Audits</b> - 6 Months from Date of Audit Report</li> </ul> <p><b>Disposition:</b> 12 Months from Date of Audit Report</p>	<p><b>Resolution:</b></p> <ul style="list-style-type: none"> <li>• <b>CAS Noncompliance Audits</b> – Management concurrence of: <ul style="list-style-type: none"> <li>➢ MFR and Notice of Potential Non-Compliance issued to the Contractor, or</li> <li>➢ MFR and Notice of Disagreement with Non-Compliance Issued to DCAA</li> </ul> </li> <li>• <b>CAS Cost Impact Audits – Management concurrence of MFR** or PNOM</b></li> <li>• <b>Disclosure Statement Audits</b> –Management concurrence of MFR</li> </ul> <p><b>Disposition:</b></p> <ul style="list-style-type: none"> <li>• <b>CAS Non-Compliance Audits</b> - Management Concurrence of the MFR and Determination of Compliance or Noncompliance</li> <li>• <b>CAS Cost Impact Audits</b> - Management Concurrence of MFR**/PNM and Settlement Agreement/COFD/Demand for Payment</li> <li>• <b>Disclosure Statements</b> – Management Concurrence of MFR and Adequacy/Compliance Determination</li> </ul>	<p><b>Resolution:</b></p> <ul style="list-style-type: none"> <li>• <b>CAS Noncompliance Audits</b> Date the Notice of Potential Noncompliance was issued to the Contractor or Date of the Notification of Disagreement was issued to DCAA</li> <li>• <b>CAS Cost Impact Audits</b> Date PNOM or MFR approved by Management</li> <li>• <b>Disclosure Statement Audits</b> Date MFR approved by Management</li> </ul> <p><b>Disposition:</b></p> <ul style="list-style-type: none"> <li>• <b>CAS Noncompliance Audits</b> Date Determination issued to the Contractor</li> <li>• <b>CAS Cost Impact Audits</b> Date Settlement Agreement/COFD/Demand for Payment issued to Contractor</li> <li>• <b>Disclosure Statements</b> Date Determination of Adequacy/Compliance issued to the Contractor</li> </ul>
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<p><b>Final Incurred Cost</b></p> <ul style="list-style-type: none"> <li>• DCMA Manual 2201-03, “Final Indirect Cost Rates”</li> <li>• DCMA Manual 2501-10, “Contract Debts”</li> <li>• DCMA Manual 2201-05, “Boards of Review”</li> <li>• DCMA Manual 2501-09, “Contract Claims and Disputes”</li> </ul>	<p><b>Resolution:</b> 6 Months from Date of Audit Report</p> <p><b>Disposition:</b> 12 Months from Date of Audit Report</p>	<p><b>Resolution:</b> Management Concurrence of PNOM or MFR**</p> <p><b>Disposition:</b> Management Concurrence of:</p> <ul style="list-style-type: none"> <li>• Documentation from ACOs and/or PCOs indicating settlement of questioned direct costs and the completion of a questioned direct cost spreadsheet,</li> <li>• MFR/PNM* and Final Rate Agreement, or</li> <li>• COFD/Demand for Payment /Unilateral Rate Determination</li> </ul>	<p><b>Resolution:</b> Date PNOM or MFR approved by Management</p> <p><b>Disposition:</b> Date of Final Rate Agreement or Date of COFD/Unilateral Rate Determination</p>
<p><b>All Other Audits</b></p> <ul style="list-style-type: none"> <li>• DCMA Manual 2201-01, “Forward Pricing”</li> <li>• DCMA Manual 2401-01, “Negotiation Intelligence Procedures”</li> <li>• DCMA Manual 2501-09, “Contract Claims and Disputes”</li> </ul>	<p><b>Resolution:</b> 6 Months from Date of Audit Report</p> <p><b>Disposition:</b> 12 Months from Date of Audit Report</p>	<p><b>Resolution:</b> Management Concurrence PNOM or MFR**</p> <p><b>Disposition:</b> Management Concurrence with PNM or MFR* and final decision/determination document issued to contractor, if applicable.</p>	<p><b>Resolution:</b> Date PNOM or MFR approved by management</p> <p><b>Disposition:</b> Date the final decision/determination document issued to the Contractor</p>
<p>*The first page of all MFRs, PNOMs, and PNMs must be on DCMA letterhead.</p> <p>** MFR can only be used in lieu of a PNOM/PNM when no negotiations are required (e.g., audit contains questioned costs and contractor concurred prior to issuance of audit report or audit report contains questioned costs and the contractor concurred with 100% of all questioned costs during the fact finding stage as defined in the Glossary).</p>			

**4.3. DISPOSITION AND FORWARD STAGES OF THE CONTRACT AUDIT FOLLOW-UP PIPELINE.**

a. Disposition. The disposition of an audit is based on the type of audit; however, an audit must not be fully dispositioned and CAFU record closed until the ACO has addressed **all** audit findings and recommendations, to include questioned direct costs settled by other ACOs/PCOs. An audit report is considered to be dispositioned when the contracting officer receives management review and concurrence of the PNM or MFR and all actions have been taken, so that no further actions can be reasonably anticipated. The first page of the PNM/MFR must be on DCMA letterhead.

b. Time Requirement for Disposition. The ACO must disposition reportable audits in accordance with Table 3. Reportable audits not dispositioned within the required timeframe are considered overage. The ACO should protect the Government's interest, even if it results in the audit becoming overage for disposition, the ACO must document the actions taken to achieve resolution at least monthly in the "Remarks" section of the record in the CAFU system. Specifically, the ACO must document the file and update the "Remarks" section of the CAFU system with the reason for overage and actions taken to achieve disposition of the audit.

c. Disposition of Non-Reportable Audits. The procedures for the disposition of non-reportable audits are the same as the procedures for the disposition of reportable audits. For audits requiring no action by the ACO, please see Paragraph 4.2.c.

d. Disposition of Audits with Questioned Direct Costs. Outstanding questioned direct costs do not preclude the ACO from settling the indirect costs. Regardless of whether DCMA has been assigned contract administration, if questioned direct costs are included in an incurred cost audit addressed to an ACO, disposition of the CAFU record remains with the ACO who had cognizance over the indirect rates. If all final indirect rates are settled and the questioned direct costs are still unsettled, the ACO must hold the CAFU record open until **all** questioned direct costs are settled. The ACO must add notes in the "Remarks" section of the open CAFU record describing 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/PCO with the authority to do so, a copy of the settlement documents must be provided to the CACO/DACO/ACO for use in dispositioning the audit in the CAFU system. The ACO must complete a questioned direct cost spreadsheet to ensure **all** questioned direct costs have been settled and accounted for prior to disposition of the CAFU record. If **all** direct costs have been settled, the ACO must prepare a PNM Addendum demonstrating all questioned direct costs have been adequately resolved prior to dispositioning the audit. The ACO must attach a copy of the Questioned Direct Cost Spreadsheet to the PNM Addendum. All coordination with the PCOs/ACOs must be documented in writing and maintained in the official file. In cases where PCOs are reluctant to provide copies of settlement documents, the ACO should reach out to the DCAA auditor or Field Detachment office and confirm in writing all questioned direct costs have been settled before the record can be dispositioned. See the PCO Locator for guidance on locating PCOs. For additional guidance on the disposition of audits with questioned direct costs, please see the DCMA Direct Cost Handling Guidebook.

e. 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 have no material impact according to the draft DCMA Manual, 2201-05, "Boards of Review," on the rates to be negotiated or established by the ACO, or the ACO determines the regulatory time limits warrant proceeding with settlement (i.e., FAR 33.206). The ACO must consult with legal to determine SoL dates and pursue the execution of a tolling agreement prior to settling rates without flow down allocations. The ACO must document these exceptions in the PNM.

f. Procedures for Dispositioning and Forwarding Records. Only an ACO or supervisor can disposition an audit record. An audit is considered dispositioned and closed when all of the following actions have been performed:

(1) Document Disposition Results. The ACO has documented the disposition results of all reported findings and recommendations in a signed and dated PNM or MFR as required on Table 3. At a minimum, the PNM/MFR must address the disposition requirements of the applicable subject matter manuals and include the following, if applicable:

- Rationale for final agreement or disagreement with each audit finding and/or recommendation with descriptive and detailed analysis on what was reviewed/considered when not sustaining DCAA's questioned costs
- All the facts from DCAA, the contractor, FAR, applicable manuals, regulations, data, etc. used to achieve disposition
- The legal opinion relied upon when the contracting officer disagrees with the reported findings or recommendations based on interpretation of law or regulation,
- Assessment of penalties and interest or documentation and rationale supporting a penalty waiver in accordance FAR 42.709,
- Rationale to support unresolved costs that do not have an impact,
- DCAA's opinion on supplemental information/documentation provided by the contractor that was not addressed during the resolution stage,
- If available, the negotiation/settlement results of the other Government agencies that have negotiation responsibility over a portion of the findings/recommendations (e.g., questioned direct costs)
- Board(s) of Review recommendations

(2) Obtain Management Concurrence. All disposition documents, identified in Table 3, require management review and concurrence. The FLS may utilize the highly recommended CAFU checklist when reviewing the disposition documentation.

(3) Execute Required Contractual Actions. The ACO has executed any required contractual action (e.g., final indirect rate agreement, unilateral rate determination, settlement agreement, CAS determinations, COFD, etc.) to the contractor.

g. Update CAFU Record for Disposition/Forward. Once all disposition actions are complete, the ACO must update the following fields in the CAFU record:

(1) Questioned Costs Sustained – Questioned costs sustained represent the amount the contractor must not charge to the Government and should match what was written in the PNM/MFR. The questioned cost sustained must not exceed the DCAA reported questioned or updated questioned cost (including questioned costs found by DCMA), and must not include any amount for penalties or interest assessed. Questioned costs sustained must not be adjusted for commercial business or Government participation. The ACO must exclude from questioned costs any sustained corporate or divisional allocated cost if another DoD contracting officer is responsible for negotiating and reporting them in the CAFU system. The ACO must report the total amount of the following questioned costs sustained in the CAFU system:

- 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
- Questioned costs or amounts agreed to by the contractor during fact finding and/or negotiations
- Direct cost sustained by other ACOs/PCOs

- Questioned costs the contractor does not agree with when the ACO issues a COFD or makes a written determination the costs are unallowable

(2) Penalty. Assess penalty amount, if necessary

(3) Disposition Date. Disposition Actual Date

(4) Update Remarks. See Paragraph 4.2.d.(5)

(5) Forward Date. The forward date is entered in the record (once forwarded, ACOs can no longer access the record without CAFU Monitor assistance). Once a forward date has been entered, the ACO has the option to generate an email to the DCAA Field Audit Office inbox. The ACO should add the affected ACOs/PCOs, DCAA Supervisory Auditor(s), and DCAA Branch Manager on the “To” line. To provide evidence of forwarding documentation, the ACO must attach a copy of the PNM, COFD, Determination, MFR, and/or other dispositioning documentation to the forwarding email and include themselves on distribution. Distribution will be made within 30 calendar days of disposition. PNOMs, PNM, and MFRs are internal documents and must not be released to the contractor unless management grants approval. The FLS may sign off on the Disposition/Forward area of highly recommended CAFU checklist.

#### **4.4. DEFERRED STAGE OF THE CONTRACT AUDIT FOLLOW-UP PIPELINE.**

a. Litigation or Investigation. An audit is considered “Deferred” in the CAFU system when the contractor of the audit is the subject of litigation or investigation for the years the audit covers. At such time as the ACO becomes aware or is advised by the assigned legal counsel or investigative service that the audit is the subject of an investigation or litigation, the ACO must change the record to a Deferred status in the CAFU system within 30 calendar days. The CAFU system precludes moving a record to the Deferred stage of the pipeline until a Resolution Actual Date has been entered in the CAFU system. If the audit has not been resolved prior to the litigation/investigation, the ACO must prepare an MFR to document the circumstances requiring movement of the record to Deferred status. The ACO must enter a Resolution Actual Date, which should be the date the record moves to deferred status. The ACO must update the remarks specifying the reason for deferment, and include the appropriate dates and court docket numbers, as applicable. The ACO must confer with legal counsel and/or the investigative service to determine if they can work on any aspect of the audit while the investigation is on-going (e.g., in relation to an incurred cost audit with questioned costs, the ACO may be able to proceed with fact finding, DCAA review of additional documentation, drafting the PNOM, coordination of settlement of questioned direct costs, etc.). The ACO must comply with the instructions of the assigned legal counsel or investigative representative. If the ACO issues a final determination/decision pursuant to FAR Subpart 33.2, “Disputes and Appeals”, and the contractor appeals to the Armed Services Board of Contract Appeals (ASBCA) within the 90-day time limit following the final determination/decision, or the contractor 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 attorney provides the ACO written notification of the appeal and the docket number.

b. Follow-Up. When an audit becomes deferred, the ACO must follow-up in writing with the assigned legal counsel or investigative service at least every 3 months to obtain the updated status of the litigation or investigation. The ACO must also document the progress within the “Remarks” section of the audit record and update the Revised Target Disposition Date, as applicable.

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 the appropriate CAFU pipeline status within five business days and record the date of status change in the remarks field. The ACO will then proceed with resolution and or disposition activities. The FLS may review and sign the highly recommended CAFU Checklist for the Deferred stage, if utilized by the Command. The change in status from “Deferred” to “Resolved” or “Dispositioned” almost always results in an audit becoming instantly overage.

d. Disposition of Deferred Audits. Deferred audits will be dispositioned when one of the following occurs:

(1) Negotiated Settlement. The ACO negotiates a settlement covering all audit issues (including the disposition of unresolved costs, the assessment of penalties and interest, and the settlement of all questioned direct costs) with the contractor, receives management review and concurrence, and executes any required contracting action (e.g., PNOM, PNM, indirect rate agreement, etc.).

(2) ASBCA or CoFC Decision. Once a final decision is rendered on an appeal made to the ASBCA or CoFC, all corrective actions directed by the ASBCA or CoFC are complete, and any associated documents are executed, the ACO must proceed with disposition. The ACO must prepare a MFR, which at a minimum includes the following:

- Type of audit and audit number
- Area of disagreement between the Government and the contractor, brief history of the circumstances leading up to the ASBCA or CoFC, including key dates (dates of negotiations, dates key documents were provided, COFD issue date, etc.)
- ASBCA or CoFC docket number(s)
- Decision by the ASBCA or CoFC
- What steps the ACO needed to take as a result of the decision and when those steps were completed
- A statement that all actions have been taken and no further actions can be reasonably anticipated

Management review and concurrence of the MFR must be received prior to the record being dispositioned in the CAFU system. Additionally, management review and approval is required of any contractual documents such as PNMs, Final Indirect Cost Rate Agreements, etc.

## **SECTION 5: RECORD RETENTION**

### **GENERAL OVERVIEW.**

a. **Time Requirement.** In accordance with DoDI 7640.02, 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 and FLS.

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 in the Agency electronic record system (currently electronic Documents and Records Management System). Additionally, the ACO must maintain all these records as required by DCMA Manual 4501-04, Volume 1, “Records and Information Management Program,” and DCMA Manual 4501-04, Volume 2, “Records Retention Schedule.”

## **SECTION 6: PERFORMANCE EXPECTATION**

### **GENERAL OVERVIEW.**

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 CAFU actions. As directed within individual organization contribution plans, individuals must be held accountable to maintaining accurate CAFU records.



## GLOSSARY

### G.1. DEFINITIONS.

**Business Day.** Business days are Monday through Friday, and exclude U.S. Federal holidays and weekends.

**Calendar Day.** A calendar day is defined as any day of the month including U.S. Federal holidays and weekends.

**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/MFR and all corrective actions have been taken, so that no further actions can be reasonably anticipated.

**Fact Finding.** In relation to incurred cost audit, fact finding is defined as discovering and establishing the facts of an issue before negotiations are conducted. Fact finding occurs during the resolution stage and before the disposition stage. Once the PNOM is executed, the fact finding stage ends and the negotiation phase begins.

**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.** Non-reportable audits are not included in the DoD IG Semi-Annual Report to Congress. While there are no time requirements for resolution of non-reportable audits, it is DCMA policy that non-reportable audit records will be resolved within 6 months and dispositioned within 12 months of report issuance, unless documentation with supervisor concurrence shows it is in the Government's best interest to leave the record open for additional time. Non-reportable audits are those reports covering:

- Agreed-upon procedures
- Non-audit services
- Audits of contractor estimates of future costs
- Incurred cost audits with no questioned or unresolved costs
- Products resulting from non-audit services performed (e.g., memorandums, letters) 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.

**Qualified Opinion.** When the audit report discloses noncompliances that are material but not pervasive.

**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 Cost Subject to Penalty.** In accordance with FAR 42.709, questioned costs are subject to penalty as follows:

- Level One Penalty - If the contractor includes in their indirect cost proposal an indirect cost that is expressly unallowable under a cost principle in FAR 31.205 or an executive agency supplement

to the FAR, the costs claimed are subject to Level One Penalties. The penalty is equal to the amount of the disallowed costs allocated to contracts that are subject to penalty for which an indirect cost proposal has been submitted

- Level Two Penalty - If the indirect cost was determined to be expressly unallowable for that contractor before proposal submission, the penalty is two times the amount of disallowed costs allocated to contracts that are subject to penalty. Prior determinations of unallowability may be evidenced by a DCAA Form 1, "Notice of Contract Costs Suspended and/or Disapproved," or any similar notice which the contractor elected not to appeal and was not withdrawn by the cognizant Government agency; a contracting officer final decision which was not appealed; a prior executive agency Board of Contract Appeals or court decision involving the contractor, which upheld the cost disallowance; or determination or agreement of unallowability under FAR 31.201-6
- It is not necessary for expressly unallowable costs to have been paid to the contractor in order to assess a penalty
- Waiver of Penalties - The cognizant contracting officer must waive the penalties at FAR 42.709-1(a) if one of the three instances at FAR 42.709-5 are met

**Questioned Costs Sustained.** The total questioned amount that must 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 must not include any amounts for penalties or interest assessed. Adjustment for commercial business or Government participation must not 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 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 are not 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)

For clarification purposes, reportable audits also include:

- Supplemental audit reports that supersede or supplement a previously issued reportable audit report, regardless of whether the supplemental report includes findings, recommendations, questioned costs, or potential cost avoidance
- Audit reports with unresolved subcontracting costs

- Audit reports containing DCAA determined final indirect rate agreements that require ACO penalty assessment

**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.

**SoL date.** Claims by both the Government and federal contractors are subject to a 6-year SoL which means that claims under Sections 7101-7109 of Title 41, United States Code, also known and referred to in this issuance as “Contracts Disputes Act of 1978,” as amended, must be submitted within 6 years of the time when all events establishing alleged liability for a claim were known or should have been known.

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

## GLOSSARY

### G.2. ACRONYMS.

ACO	administrative contracting officer
ASBCA	Armed Services Board of Contract Appeals
CACO	Corporate administrative contracting officer
CAFU	Contract Audit Follow-Up
CAS	Cost Accounting Standards
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
DMIS	DCAA Management Information System
DoDI	DoD Instruction
DoD IG	DoD Office of the Inspector General
EWAM	External Web Access Management
FAR	Federal Acquisition Regulation
FLS	First Line Supervisor
HQ	headquarters
IWAM	Internal Web Access Management
MFR	Memorandum for record
PCO	procurement contracting officer
PNM	Price Negotiation Memorandum
PNOM	Pre-Negotiation Objective Memorandum
POC	point of contact
SoL	Statute of Limitations

## REFERENCES

- DCMA Manual 2501-10, "Contract Debts," January 3, 2022
- DCMA Manual 2201-03, "Final Indirect Cost Rates," December 20, 2021
- DCMA Manual 2201-05, "Boards of Review," December 20, 2021
- DCMA Manual 4501-04, Volume 1, "Records and Information Management Program," April 16, 2021
- DCMA Manual 4501-04, Volume 2, "Records Retention Schedule," April 14, 2021
- DCMA Manual 2201-01, "Forward Pricing Rates," February 14, 2019, as amended
- DCMA Manual 2401-01, "Negotiation Intelligence Procedures," December 20, 2018, as amended
- DCMA Manual 2201-02, "Cost Accounting Standards (CAS) Administration," February 7, 2019, as amended
- DCMA Manual 2303-01, "Surveillance," May 17, 2020
- DCMA Manual 2301-01, "Contractor Business Systems," April 28, 2019
- DCMA Manual 2501-09, "Contract Claims and Disputes," March 26, 2018
- DoD Instruction 7640.02, "Policy for Follow-Up on Contract Audit Reports," April 15, 2015
- DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013
- Federal Acquisition Regulation (FAR), current edition
- United States Code, Sections 7101-7109 of Title 41 (also known as "Contracts Disputes Act of 1978," as amended)