

DEPARTMENT OF THE ARMY
SAVANNAH DISTRICT, CORPS OF ENGINEERS
CESAS-CT P.O. BOX 889
SAVANNAH, GA 31402-0889

DISTRICT REGULATION
NO. 715-1-6

27 August 1999

Procurement
REQUESTING, RECEIVING, AND TRACKING CONTRACT AUDIT REPORTS

1. Purpose. To establish procedures and responsibilities for accomplishing the requirements in DFARS 215.404-2.
2. Applicability. This regulation applies to all operating elements of the Savannah District engaged in the acquisition and/or contract administration process.
3. References.
 - a. Army Federal Acquisition Regulation Supplement (AFARS), 23 June 1999, Part 15, Contracting by Negotiation, paragraphs 1-4.
 - b. Engineer Federal Acquisition Regulation Supplement (EFARS), 12 July 1996, Part 15.805-5, 12 July 1996, Field pricing support (cross ref FAR 15.404-2).
 - c. Engineer Federal Acquisition Regulation Supplement (EFARS), 12 July 1996, Part 15.890-2, Tracking of contract audit report recommendations, Part 15.890-3, Reporting, and Part 15.890-4, Overage Audit Review Boards.
 - d. DOD Directive 7640.2, 16 August 1995, Policy for Follow-up on Contract Audit Reports.
4. General. References in paragraph 3 above require that all contract audit reports be tracked from request for audit through receipt, resolution, and disposition. In addition, these references prescribe policies for contract audit follow-up and establish a system for management action on contract audit reports.

This regulation supersedes DR 715-1-6, dated 12 February 1993.

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5. Responsibilities. Chief, Contracting Division will:

- a. Request and receive all audit reports.
- b. Track all requests for audits through receipt, resolution, and disposition.
- c. Submit Status Report on Specified Contract Audit Reports (Report Control Symbol DD-IG (SA) 1580) HQUSACE (CEPR) no later than 10 April and 10 October to cover periods ending 31 March and 30 September (Appendix A).
- d. Maintain a suspense system of information to be furnished by the Contracting Officers; i.e., additional information requested by Defense Contracting Audit Agency (DCAA), supporting documentation of resolution and disposition, etc.

6. Procedures.

a. Audit Request. Staff requests for audits will be sent to the Contract Audit Follow-up Monitor (CAF), Contracting Division, in duplicate. Requests will be submitted on the form prescribed in Appendix B. All audit requests for civil contracts will be accompanied by an estimated certified purchase request for DCAA audit services. The purchase request will contain billing information and increased/decreased when required by the requesting activity.

b. Tracking Requirement. The Chief, Contracting Division is required to establish and maintain a register of audit reports until the audit is disposed. All audit reports will be tracked. The audit report will be assigned an audit internal control number by the CAF monitor and forwarded to the appropriate office.

7. Resolution of Contract Audit Report.

- a. Definitions.

(1) RESOLUTION: Establishment of pre-negotiation objectives as executed in the Pre-negotiation Objective Memorandum.

(2) DISPOSITION: Execution of the Price Negotiation Memorandum. A negotiated settlement with the contractor, formalized by an executed contract document or contractor implementation of the Contracting Officer's decision.

(3) OVERAGE: An audit report that has not been disposed of or "dispositioned" and is over 12 months old.

(4) COST SUSTAINED: Cost questioned by the audit that was sustained by the Contracting Officer and documented in the Price Negotiation Memorandum or the Contracting Officer's Decision. Following are suggestions on computing cost sustained.

(a) If the difference between the amount of the contractor's claim and the amount awarded to the contractor is equal to or greater than the costs questioned by the auditor, the sustained costs are equal to the cost questioned. The sustained costs can never exceed the costs questioned.

(b) If the difference between the amount of the claim and the amount awarded to the contractor is less than the costs questioned by the auditor, the sustained costs are equal to that difference.

b. Resolution of contract audit reports, other than pre-awards, is required by Public Law PL 96-527 (reference (h)), as well as Office of Management and Budget (OMB) Circular A-50 (reference (b)), Audit Follow-up, within 6 months of report issuance.

c. Disposition of audit reports as indicated above should take place as soon as possible after resolution, but not later than 1 year from the date of the audit report.

d. The documentation and review of proposed pre-negotiation objectives will provide the independent review for internal control purposes prescribed by OMB Circular A-50. For most contract audit reports, the Contracting Officer should obtain Contractor comments, and such technical advice deemed necessary, prior to formulating a pre-negotiation position. The additional information will be shared with the auditor, as appropriate. If additional audit effort is required because of data presented by the Contractor, the Contracting Officer will promptly request such a review, and the audit organization will give priority to providing the necessary additional audit support. If no additional audit effort is deemed necessary, the Contracting Officer will communicate with the auditor on the proposed disposition, as necessary, to reach a fully informed decision. In documenting his/her pre-negotiation position, the Contracting Officer should indicate whether the audit recommendations were accepted or, if not, whether the auditor has revised them. When the Contracting Officer disagrees with the audit position, the Contracting Officer's pre-negotiation documentation should include the rationale for not accepting the audit advice. The post-negotiations documents should include a summary of the field pricing report recommendations and the reasons for any pertinent variances from those recommendations. Contract audit report for which resolution has not been accomplished within 6 months, will be reported to the Principal Assistant Responsible for Contracting (PARC).

8. Notification of Final Disposition of Contract Audit Reports.

a. Explicit and timely documentation and feedback on the final disposition of audit reports are essential. A copy of the price negotiation memorandum will be provided to the Contract Audit Follow-up Monitor who will forward the copy to the cognizant contract auditor before a report is closed. For non-reportable audits, a similar document will be prepared. To ensure that the final disposition of all audit reports is properly accounted for, the Contracting Officer will notify the Contract Audit Follow-up Monitor in writing, who in turn will notify the cognizant audit office in writing of the cancellation

of any acquisition action and of any unsuccessful offers not receiving award of the contract or grant for which an audit report was issued.

b. Reporting Requirements. Status Report on Specified Contract Audit Reports (Report Control Symbol DD-IG (SA) 1580) will be submitted semiannually to CEPR by 10 April and 10 October of each year. Reportable audits prescribed in Appendix C will be reported in the format prescribed in Appendix A.

9. Documentation. All audit reports require resolution and disposition. All documentation is required in writing and will reference the audit involved and show date of action. Copies of all supporting actions will be furnished to CAF Monitor, Contracting Division, for audit tracking purposes. All District elements are individually responsible for providing status reports on all reportable audits to the CAF Monitor, Contracting Division. Any change in status must be submitted within 10 days of its occurrence. Status updates must show the DCAA Audit Report Number.

3 Appendices	/s/
Appendix A -	JOSEPH K. SCHMITT
Status Report	COL, EN
Appendix B -	Commanding
Request for Audit	
Appendix C -	
Audit Reports - Types and Definitions	

DISTRIBUTION B

STATUS REPORT ON SPECIFIED CONTRACT AUDIT REPORTS
 (Report Control Symbol DD-IG(SA) 1580)

OPEN REPORT

For period ending _____

U.S. Army Engineer District, Savannah,

Audit Report Number	Report Date	Contractor Name	Type of Audit <u>1/</u>	Cost Questioned/ Cost Avoidance	In Litigation <u>3/</u>	Resolved/ Unresolved <u>4/</u>	Resolution Target Date <u>5/</u>	Disposition Target Date <u>5/</u>
A. Overaged reports (over 12 months old)								
B. Reports 6-12 months old								
C. Reports less than 6 months old								
D. Reports in litigation								
E. Reports involved in criminal investigation <u>2/</u>								

- 1/ Use types or codes listed in Appendix C
- 2/ If the investigative organization has requested deferral of resolution or disposition
- 3/ Docket/Case No. or no (N)
- 4/ Date of resolution or (U) if unresolved
- 5/ Year, month, and day

STATUS REPORT ON SPECIFIED CONTRACT AUDIT REPORTS
 (Report Control Symbol DD-IG(SA) 1580)

REPORTS CLOSED DURING PERIOD

For period ending _____
 U.S. Army Engineer District, Savannah, _____

Audit Report Number	Report Date <u>1/</u>	Contractor Name	Type Audit <u>2/</u>	Date of Disposition <u>1/</u>	Cost Questioned/Cost Avoidance	Cost Sustained/ Avoided
A. Reports listed as overaged in prior report						
B. Other reports closed during period						

1/ Year, month, day

2/ Use types of codes listed in Appendix C

APPENDIX B
AUDIT REPORT
INSTRUCTIONS

Request for audit will be furnished in duplicate as follows:

Page 2: Check applicable report. See Appendix C for type of audit. Indicate whether prime or subcontractor.

Page 3:

Paragraph 2: If technical analysis is not included with audit request, indicate date it will be furnished.

Paragraph 3: List any and all enclosures including standard forms submitted by contractor or claimant.

Paragraph 4: List known audits of contractor within previous 12 months.

Paragraph 5: Special instructions must be stated. As a minimum, state whether military or civilian requirement.

Forward To CT (Audit Tracker)

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AUDIT REPORT

From: CESAS-_____ Solicitation or Contract
Name _____ Number: _____
Tel No. _____ Project Name: _____
Modification No. _____
To: CESAS-CT Date: _____

1. Request the following report (check one):

- | | |
|--|---|
| <input type="checkbox"/> Estimating System Survey | <input type="checkbox"/> Final Pricing Submissions |
| <input type="checkbox"/> Accounting System Survey | <input type="checkbox"/> Termination Settlement Proposals |
| <input type="checkbox"/> Internal Control Review | <input type="checkbox"/> Reviews of Contract Claims |
| <input type="checkbox"/> Defective Pricing Reviews | <input type="checkbox"/> a. Equitable Adjustment |
| <input type="checkbox"/> Forward Pricing Proposals | <input type="checkbox"/> b. Hardship Claims |
| <input type="checkbox"/> Cost Accounting Standards Non-Compliance Determinations | <input type="checkbox"/> c. Escalation Claims |
| <input type="checkbox"/> Operations Audit | <input type="checkbox"/> Progress Payments |
| <input type="checkbox"/> Incurred Costs | <input type="checkbox"/> Preaward Surveys |
| <input type="checkbox"/> Settlement of Final Indirect Costs | <input type="checkbox"/> Proposals for Change Orders or Modifications |
| <input type="checkbox"/> Closing Statements | <input type="checkbox"/> Assist Audits |

Prime/Sub Contractor:
(Name) _____
(Address) _____
City/State/Zip _____

2. Technical Evaluation enclosed: ___Yes ___No (If no, state target date) _____

3. Other enclosures: (list)

4. Other audits of this contractor within the previous 12 months (by audit number):

5. Remarks:

Signature

Title

APPENDIX C
AUDIT REPORT
TYPES

<u>CODE</u>		<u>TYPE OF AUDIT</u>
A	240	Estimating System Survey
B	159	Accounting System Review
C*	179	<i>Internal Control</i> Review
D	420	Defective Pricing Review
E	440	Cost Accounting Standards Noncompliance
F	105	Operations Audit
G*	160	Incurred Costs
H*	140	Settlement of Indirect Cost Rate
I*	153	Final Pricing
J*	171	Terminations
K*	172	Equitable Adjustment Claims
L*	173	Hardship Claims
M*	174	Escalation Claims

*Report costs or rates questioned/qualified must equal \$100,000 or more.

Nonreportable Audits: Pre-award Proposals
Forward Pricing
Overhead and Other Advance Rate Proposals
Progress Payments
Pre-award Surveys
Proposals for Change Orders or Modifications
Assist Audits
Closing Statements

NOTE: ALL REPORTS (WHETHER REPORTABLE OR NONREPORTABLE) MUST HAVE A DOCUMENTED RESOLUTION AND DISPOSITION ACTION.

AUDIT REPORT

DEFINITIONS

105. Operations Audit. An evaluation of a Contractor's operations, related functions, and/or cost objectives for the purpose of determining if the most efficient and economical methods are in use. Such an audit involves review and evaluation of a Contractor's policies, procedures, controls and actual performance to assure that a reasonable level of cost efficiency is achieved in accomplishing contract requirements.

140. Settlement of Indirect Cost Rate. An audit of indirect costs and the review of allocated methods and procedures applicable to such costs included in overhead, general and administrative expenses, and other indirect cost groups. These audits include an evaluation of the Contractor's allocation methods and bases, account analysis, home office costs and allocations, accruals, adjustments, credits, miscellaneous income, unusual journal entries, etc.

153. Final Pricing Submissions. An audit of a Contractor's final pricing proposal under a flexible fixed price contract. (All cost reimbursable contracts.)

154. Closing Statement. The audit effort involved in reviewing a Contractor's final voucher and related closing documents and in reconciling the final voucher costs to audited costs on a cost-type contract.

159. Accounting System Review. A review of a Contractor's accounting system for the purpose of determining the adequacy and suitability of the system to accumulate costs for Government contracts.

160. Incurred Costs. All audits of costs incurred under a cost type contract, except the final audit. (All cost reimbursable contracts.)

171. Termination Settlement Proposals. A review of a Contractor's claim for costs incurred on a terminated contract.

172. Equitable Adjustment Claims. A review of a claim initiated and submitted by a Contractor for costs incurred as a result of abnormal conditions not known or anticipated at the time the contract price was established.

173. Hardship Claims. A claim for adjustment of price in contract based on P.L. 804.

174. Escalation Claims. A claim submitted by a Contractor based on a clause in the contract to adjust prices in labor and material costs because of economic fluctuations or to provide for contract adjustments in the event of changes in the contract's established price. Upward or downward price adjustments are tied to the occurrence of certain contingencies which are specifically defined in the contract and beyond the control of the Contractor.

175. Progress Payments. A review of a Contractor's request for payment in performance of a contract in accordance with the provisions of the Federal Acquisition Regulation (FAR) subpart 32.5. This does not apply to contracts for construction when such contracts provide for progress payments based on a percentage or stage of completion. (All cost reimbursable contracts.)

179. Internal Control Review. A review of a Contractor's methods and procedures to safeguard resources, assure the accuracy and reliability of accounting and cost data, promote operational efficiency and encourage adherence to established management policies and procedures.

210. Forward Pricing Proposals. A review of a Contractor's estimate of costs supporting all types of proposals in connection with the award, administration, modification, or repricing of a Government contract.

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230. Advance Rate Agreements. A review of projected or forecasted bidding rates, pricing factors and other data which will be included in a Contractor's subsequent bid proposal. This review will lead to the establishment of formal or informal rate agreements or will form the basis for subsequent auditor recommendations regarding prospective costs.

240. Estimating System Survey. The evaluation of a Contractor's estimating methods and procedures.

420. Defective Pricing Reviews. A post award review of Contractor's cost or pricing data to determine if it was accurate, current and complete at time of price agreement.

440. Cost Accounting Standards Non-compliance Determination. Review of initial or revised disclosure statements and compliance reviews dealing with the Cost Accounting Standards.

Pre-award Surveys. A review of a Contractor's proposal before an award is made. Usually applies to 8(a) proposals and non-competitive proposals over \$500,000 in support of all costs.

Proposals for Change Orders or Modifications. A review of a Contractor's proposal for change orders/modifications over \$500,000 in support of all costs.

Assist Audits. An assist audit is an audit of a subcontractor's claim within a prime Contractor's claim. The assist audit is not resolved or disposed of if its results are included in the audit for the prime Contractor and the resolution and disposition of the audit of the prime Contractor address the issues of the assist audit. If the DACC/SADAQ-KS auditor has not included the assist audit in the prime Contractor audit, the assist audit will be resolved and disposed of separately.

Open Reports. An audit report that has not been disposed of is considered open.

Closed Reports. An audit report that has been disposed of is considered closed.