



Defense Contract Audit Agency

**Clarifying the “Rules of Engagement”
for Auditor Communications**



Auditor Communications

This presentation covers guidance in two MRDs

- MRD on Auditor Communications (Rules of Engagement)
- MRD on Auditor Attendance at Negotiations



Auditor Communications

- As reflected in our mission statement we serve the public interest by helping the Department ensure that taxpayer dollars are spent on fair and reasonable contract prices.
- As we accomplish our mission, we must perform audits that are in compliance with GAGAS, as well as being timely and responsive to the requestor's needs.
- Establishing open and effective communications with all stakeholders is essential to achieving these dual goals.



Auditor Communications

- MRDs reiterate and clarify existing guidance on expected and acceptable communications during each phase of the audit:
 - Attending procurement meetings prior to receipt of audit request
 - Establishing the engagement/Acknowledging the audit request
 - Entrance conference
 - During the audit
 - Exit conference
 - Post report issuance
 - Supporting negotiations



Auditor Communications

Attending Procurement Meetings

- If requested auditors should attend meetings on general procurement issues, such as:
 - ➔ Procurement schedule requirements
 - ➔ Expectations for timely contractor support
 - ➔ Identification of major subcontracts
- May also provide general advice on what constitutes an adequate proposal and explain FAR 15.408 requirements.
- Auditor attendance for such purposes does not impair independence.
- These meetings generally include stakeholders for major procurements and may occur early in the process, e.g., after RFP is issued.



Auditor Communications

Attending Procurement Meetings

- Auditors are reminded that:
 - ➔ DCAA does not attend meetings related to proposal development.
 - ➔ Auditors should not review or provide input on draft proposals.
 - ➔ Regardless of the circumstances, auditors should refrain from comments that could be construed as advice to the contractor on how to develop its proposal.
 - ➔ Ground rules for DCAA participation should be established prior to attendance.



Auditor Communications

Establishing the engagement

- Upon receipt of request, hold discussions with requestor before beginning the audit to:
 - ➔ gain clear understanding of the requestor's needs
 - ➔ identify specific areas of concern
 - ➔ discuss how DCAA can best meet those needs and address concerns while complying with GAGAS
- DCAA may be asked to audit only parts of a proposal.
- As clarified in MRD 09-PSP-005(R), dated April 9, 2009, auditors can still perform audits of part(s) of a proposal.
- If risk factors indicate that additional parts or entire proposal should be audited, discuss with the requestor and follow the procedures in the MRD 09-PSP-005(R).



Auditor Communications

Establishing the engagement

- Acknowledge the request in writing within 5 days of receipt.
- If the risk assessment has not been completed, issue an abbreviated acknowledgement letter indicating that the FAO will coordinate an expected report date after the risk assessment is completed within approximately XX number of days.
- Once risk assessment is completed issue a 2nd “expanded” acknowledgement with a realistic expected report date based on risk factors for the particular contractor and proposal.



Auditor Communications

Establishing the engagement

- For audits that are not requested (e.g., incurred cost audits, postaward audits, and audits of contractor business systems):
 - ➔ The auditor should contact the contracting officer to notify him/her of audit commencement and discuss any concerns or other information that he/she might have relevant to the audit.
 - ➔ Notification letter should be sent to the planned recipient(s) of the audit report after the risk assessment is completed.



Auditor Communications

Proposal Walk-Through

- Held at commencement of audit, generally:
 - ➔ After initial adequacy review
 - ➔ Before or during entrance conference
- Include Gov't representatives (DCAA, ACO, PCO)
- Purpose:
 - ➔ Gain full understanding of contractor's assertion
 - ➔ Identify obvious data omissions
 - ➔ Facilitate early identification of assertion/ proposal inadequacies
- Including requestor will expedite appropriate action if proposal is inadequate or other problems require requestor's assistance.



Auditor Communications

Establishing the engagement

- For requested audits, the risk assessment should be completed as promptly as possible after receipt of the request and walk-through of the proposal/submission by the contractor.
- A realistic expected report date should be provided in writing to the requestor based on the risk assessment.
- If the proposal is inadequate, and the requestor still wants an audit, elevate the issue and follow the guidance in CAM 9-205d.
- Relevant discussions/meetings during this phase of the audit should be documented in the working papers.



Auditor Communications

Entrance conference

- Explain to contractor the purpose and overall plan of performance for the audit, and generally the types of books, records, and other data the auditor will need.
- Determine the nature and location of supporting data.
- Discuss other matters as appropriate in the specific circumstances; e.g.,
 - ➔ Follow up on items identified during separate walk-through meeting.
 - ➔ Arrange for space close to contractor representatives for the audit.
- Document the entrance conference in accordance with CAM 4-302.1



Auditor Communications

Communicating with contractor during audit

- Discuss matters as needed for a full understanding of contractor's basis for each item in submission or aspect of area being audited.
- Discuss preliminary audit findings (potential system deficiencies, FAR/CAS noncompliances, etc.) so that conclusions are based on a complete understanding of all pertinent facts.
 - ➔ Limit to factual differences for audits of forecasted costs subject to negotiations.
 - ➔ Depending on the complexity of the issues and the auditor's experience level, it may be appropriate to discuss preliminary audit issues with supervisor first.



Auditor Communications

Communicating with contractor during the audit

- Immediately orally communicate major audit problems to contractor officials authorized to make decisions.
 - ➔ For example, denial of access to records
 - ➔ Confirm in writing
- When denied access to contractor records, follow the detailed procedures and other guidance in MRD 08-PAS-042, dated December 19, 2008.



Auditor Communications

Communicating with contractor during audit

- On occasion, contractor may submit a revised submission during the audit.
- Auditors should never solicit a revised submission.
- Audit report should reflect results of audit of original submission and all questioned costs or deficiencies identified during the audit.
 - ➔ Revised submission should be considered concurrence with the FAO's position.
 - ➔ Notify requestor that audit report will reflect the audit of the original submission and will consider the contractor's management approved revised submission.
- Interim discussion with contractor should be documented in accordance with CAM 4-303.1.



Auditor Communications

Communicating with requestor during the audit

- Keep requestor/contracting officer informed of major preliminary audit issues and problems throughout the audit.
 - ➔ Discuss with supervisor first.
 - ➔ Should not provide an audit opinion
 - ➔ Clearly communicate status of audit
- Provide timely notification of required extensions.
 - ➔ The auditor or supervisor should call to discuss as soon as he/she knows expected report date cannot be met.
 - ➔ Oral notification of the extension should be confirmed in writing under the FAO Manager's or Supervisor's signature.



Auditor Communications

Communicating with requestor during the audit

- During the course of the audit, the requestor may ask the FAO to either change the type of engagement, change the audit scope or cancel the audit.
 - ➔ Before agreeing to convert or cancel an engagement consider the reasons for the request especially if the audit is substantially complete.
 - ➔ Do not agree to a contracting officer's request to cancel or convert an engagement to avoid a scope limitation, an adverse or qualified opinion, or any other unfavorable result.



Auditor Communications

Communicating with requestor during the audit

- Changes to original request should be provided to the FAO in writing.
- FAO should discuss the matter with the requestor to:
 - ➔ obtain a clear understanding of the reason for the request.
 - ➔ explain any concerns regarding risk to the Government.
- Verbal discussion should be confirmed in writing concerning:
 - ➔ appropriate changes to the engagement or
 - ➔ the reason why the changes cannot be made.
- The matter should be elevated if necessary to resolve any differences.



Auditor Communications

Communicating with requestor during the audit

- Interim discussions with the requestor/contracting officer should be documented in the working papers in accordance with CAM 4-303.1.
- Documentation should include date, participant's names and titles, and primary discussion points.



Auditor Communications

Exit conference

- Held upon completion of field work and after supervisory review and FAO manager approval (or all management reviews if RAM/DAM review is required).
 - ➔ Discuss audit results and obtain contractor's views concerning the findings/conclusions/recommendation for inclusion in the report as required by GAGAS.
 - ➔ Inform contractor that results are subject to management review, if held prior to FAO manager's final review.
- Invite the requestor/contracting officer to the exit conference, especially if there are major or complex audit issues.



Auditor Communications

Exit conference

- Except for audits of forecasted costs subject to negotiations, provide contractor a copy of draft report or draft results of audit section
- To facilitate the discussion and obtaining contractor's views, this information may be provided prior to the exit conference if applicable management reviews have been completed.
- If the report includes forecasted costs subject to negotiations:
 - ➔ Do not provide the contractor a copy of the draft report or results.
 - ➔ Limit the discussion to factual matters/differences.



Auditor Communications

Exit Conference

- Information provided to contractor at or in anticipation of the exit conference (e.g., draft report or factual information) should be concurrently provided to the requestor/contracting officer
- The draft audit report and other electronic files provided should be given the same protection as the final audit report.



Auditor Communications

Exit conference

- FAO manager may approve release of the draft audit report on a proposal to the contracting officer
 - ➔ after the exit conference
 - ➔ when final report will be issued shortly (within 5 days).
- May be released before FAO manager completes the final review, if he/she believes it is appropriate based on his/her involvement with the audit, and/or the complexity of the audit and experience of audit team.
- Draft report should be clearly marked draft and subject to change based on final management review until the final report is issued.



Auditor Communications

Exit conference

- Document the results of the exit conference in the working papers in accordance with CAM 4-304.
 - ➔ Include date, participant's names and titles, and specifically discussed items and contractor's reaction.
 - ➔ Provides information to be included in the audit report required by CAM 10-210.5e.(1).
 - ➔ Should include copies of the draft report or other information provided.
- FAO manager's approval to proceed with the exit conference should also be documented in the working papers.



Auditor Communications

Post report issuance

- Auditors should provide assistance as needed for requestor/contracting officer to understand the audit conclusions and rationale.
 - ➔ Does not impair an auditor's independence.
- Assistance may involve:
 - ➔ Answering questions informally
 - ➔ Attending negotiations
 - ➔ Attending DCMA Boards of Review
- Document support of negotiations or Boards of Review in accordance with CAM 15-404 and CAM 1-403.4, respectively.



Auditor Communications

Supporting negotiations

- It is DCAA policy to support contracting officer negotiations, especially for complex submissions with significant audit issues.
- Attendance at pre-negotiation meetings with the contracting officer when requested to discuss audit report results is also encouraged.
- Providing technical advice to help the contracting officer understand audit report results does not impair auditor independence.
 - ➔ Answer questions about audit rationale/ computations.
 - ➔ Give technical advice on contractor rebuttals and contractor data provided at negotiations.



Auditor Communications

Supporting negotiations

- Contractors may provide data to support their proposed positions in anticipation of or during negotiations.
 - ➔ May be in response to reported audit findings.
 - ➔ Contracting officer may request assistance in understanding how the data impacts reported audit conclusions.
 - ➔ Auditor should support the contracting officer, to the extent possible, by providing advice on the data.



Auditor Communications

Supporting negotiations

- Use judgment regarding whether a supplemental report is more appropriate (e.g., data is complex and/or represents a significant update to the audited proposal and requires extensive review or analysis).
- When a supplemental report is not issued, clearly mark documentation provided of work performed to distinguish it from audit report results.
 - ➔ For example, note that it contains advice provided in support of negotiations and does not represent audited data.



Auditor Communications

Supporting negotiations

- Document the results of support of negotiation in accordance with CAM 15-404.
- File the MFR in Livelink in the same folder with the official audit working paper files (see CAM 4-407e(9)).



Auditor Communications

Discussion