Thank you for joining us!

The presentation will begin shortly.

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200
FIRMS
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2023 Best Firms
to Work For

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2023 Firms to
Watch

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2023 Regional
Leaders

DCAA Current Initiatives

Tuesday, October 10, 2023

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Principal

Darren Hulem
Manager

Yevgeniy Sukhenko
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CPAs & ADVISORS

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Housekeeping

Additional Information

Learning Objective To provide attendees with a road map and update on DCAA current initiatives.	**Instructional Delivery Methods** Group Internet-based
Recommended CPE 1.0 CPE Credit	**Recommended Fields of Study** Specialized Knowledge
Prerequisites None required	**Advance Preparation** None
Program Level Basic	**Course Registration Requirements** None
Refund Policy No fee is required to participate in this session.	**Cancellation Policy** In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.

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Sources

DCAA Update

Bradley Wolfe, PAS Program Manager

Slide assistance from Steven Shamlian, CPA, Government Contract Compliance Management, LLC

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DCAA Priorities

- Incurred Cost Audits
- Demand Audits (includes Forward Pricing Audits)
- Business Systems Audits
- Truth in Negotiations Audits
- High-Risk Time-Sensitive Real-Time Audits
- CAS Compliance Audits
- Operations Audits
- Other Direct Activity
- Local Priority

Forward Pricing Audits

- Provide timely forward pricing audits.
- Issue forward pricing audits by original estimated report date.

Forward Pricing Audits Elapse Days
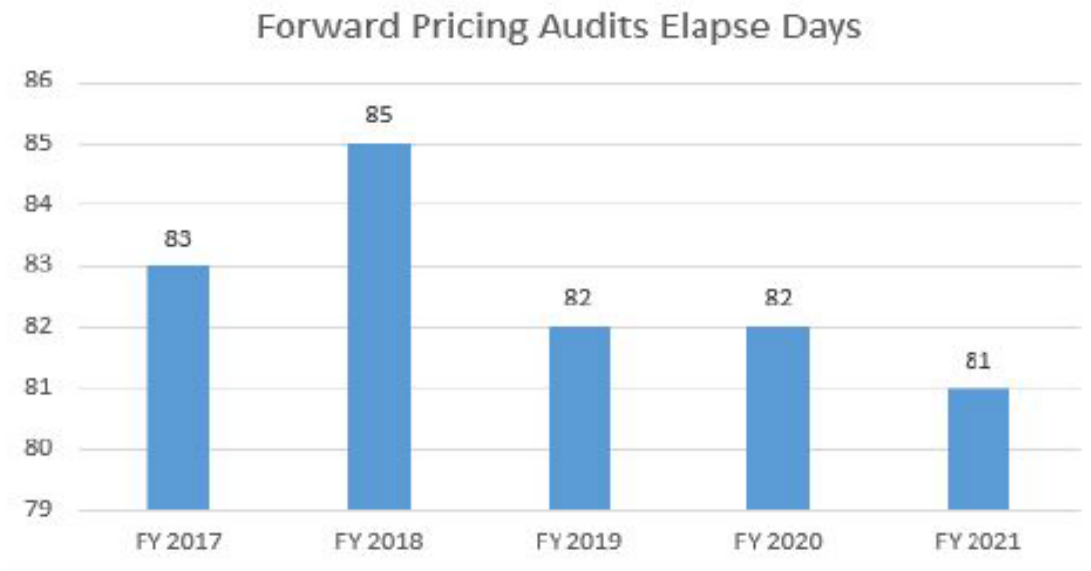
Polling Question #1

Where does it require government contractors to track their time on a timesheet?

A. FAR 31.2 Cost Principles

B. FAR Definitions

C. ICE model

D. 2 CFR 200.430(i) Compensation for Personal Services

E. There is no regulation

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Incurred Cost Audits

ICE Adequacy Assessment

Incurred Cost Audits

- Complete adequacy assessment within 60 days of receipt
- Complete audits in one year from receipt of adequate submission
- Contract with independent private auditors to perform a certain number of incurred cost audits.

- https://www.dcaa.mil/Checklists-Tools/Incurred-Cost-Submission-Adequacy-Checklist/

Final Indirect Cost Rate Proposal	Received Y/N/NA	Adequate Y/N
Summary of All Claimed Indirect Expense Rates, Including Pool, Base, and Calculated Indirect Rate.		
1. Did the contractor identify all claimed pools, bases, and rates, including COM (if applicable)?		
2. Did the contractor provide a cost schedule for each final indirect pool claimed on Schedule A (Schedules B and C)?		
3. Did the contractor provide a cost schedule for each intermediate cost pool claimed on Schedule A (Schedule D)?		

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Getting the Job Done on Time

Using Independent Public Accounting (IPA) Firms

- Using IPAs to reduce DCAA's backlog of incurred cost audits

- IPAs are on a contracted performance completion date

  - Make sure you provide timely responses, else the IPA is forced to issue unresolved questioned costs

  - You will have a very short time to respond

- DCAA gets more questioned cost on proposals, forward pricing and defective pricing audits than from incurred cost audits

- DCAA internal struggle with having more headcount for I/C audits vs. IPA

Determining Sampling Eligibility

Incurred Cost Audits < $5 Million

a. <u>Sampling ADV less than $5 million</u>. ICPs with sampling ADV less than $5 million that meet all of the following criteria are eligible for sampling:

- There were no significant questioned costs in the last completed incurred cost audit, and

- There are no Department (ACO, PCO, COR, DCAA, etc.) concerns with a significant impact on the ICP.

(1) If the ICP does not meet the criteria above, RAM / CAM approval is required prior to commencing an audit of ICPs with sampling ADV less than $5 million.

Determining Sampling Eligibility

Incurred Cost Audits > 5 Million & < $100 Million

b. <u>Sampling ADV of $5 million but less than $100 million</u>. If all of the following criteria <u>are</u> met, the ICP is eligible for sampling:

- There were no significant questioned costs in the last completed incurred cost audit;

- There are no Department (ACO, PCO, COR, DCAA, etc.) concerns with a significant impact on the ICP; and

- The contractor does not have a pre-award accounting system survey that resulted in an unacceptable opinion, or a disapproved accounting system based on a postaward accounting system audit.

Polling Question #2

What DFAR business system does DCAA not perform?

A. *Estimating System*

B. *Contractor Purchasing System Review*

C. *Material Management and Accounting System*

D. *Accounting Administration*

E. *Earned Value Management System*

DCAA Business System Audits

Contractor Business Systems Audits

- Include audits of a contractor's Accounting System, Estimating System and Material Management and Accounting System

- Contractor Purchasing System Review (CPSR) performed by DCMA

- 24 criteria, looking for a 100 + page policy and procedure

- PCOs like it because they do not have to approve subcontractors

- Won't perform unless > $25 million in sales excluding commercial items

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CPSRs

Why Do They Get So Much Attention?

- Extra evaluation points in Solicitations

- Gets the attention of small GovCons below the FAR threshold of $25 million in sales

- No internal contract management expertise nor subcontract / P.O. procedures

- High probability of CPSR failure

- Need consulting to set up system

- Transactions flow through new system for 6 months, 9 months or year before testing

- Some have no experience with working with public accounting firms – expectations

DCAA Defective Pricing Audits

Truth in Negotiations Audit

- Examine evidence for compliance with 10 USC 2306A
- Use the elements of defective pricing as a basis to report a noncompliance
- Recommend contract price adjustments
- Assist the Contracting Officer.

- DCAA is recommitted to performing more defective pricing / post-award audits

- If you signed a fixed priced contract with certificate of cost or pricing data > $2 Million

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What is Defective Pricing

How it is Determined

- On a fixed price contract,

  - Contractor knowledge of decreasing cost that not disclosed to the Government

  - Considered an improper 'windfall" to the contractor

- Example

  - Contractor proposes on a $1 million fixed price contract that they will subcontract with XYZ for $300k

  - XYZ goes out of business before the date on the agreement on price; contractor does not notify PCO

  - Contractor performs sub's work for an internal cost of $200k, $100k less which is a "windfall"

  - Defective pricing is deemed to be $100,000

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Polling Question #3

Since there is no regulation that requires timekeeping, what is the basis of time tracking becoming a mandatory requirement?

A.   *Allocability*

B.   *Industry practice*

C.   *All the above*

D.   *None of the above*

New / Ongoing Initiatives

- Contractor Submission Portal (CSP)
- Selected Area of Cost Guidebook - Update
- Information for Contractors - Update
- Contractor Information Survey
- Business System NDAA
- COVID Pandemic Support

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CSP

- It is basically a Sharepoint place to place your ICE submissions

- DCAA would like it to eventually perform some checking for adequacy

- May not work with large legacy incurred cost submissions

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Contractor Submission Portal (CSP)

- Simple online process for initiating, updating, and withdrawing Incurred Cost proposal.
- Secure application optimized to protect contractor information.
- Automated notification of successful submission to FAO.
- Capacity to handle large Incurred Cost submissions.
- Centralized file management to ensure version control.

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Contractor Submission Portal (CSP)

Procurement Integrated Enterprise Environment (PIEE)

Getting Started – How it Works

```
The user          →    The PIEE          →    If the role is not
requests               approves the           approved
CSP role.              Role.                  contact the
                                              PIEE help desk.
   ↓                       ↓                       ↓
The Request is         Once the role is       Issues can occur when
processed              approved the CSP       the user is both a user
through PIEE           appears in the PIEE    and manager in PIEE.
                       profile.
```
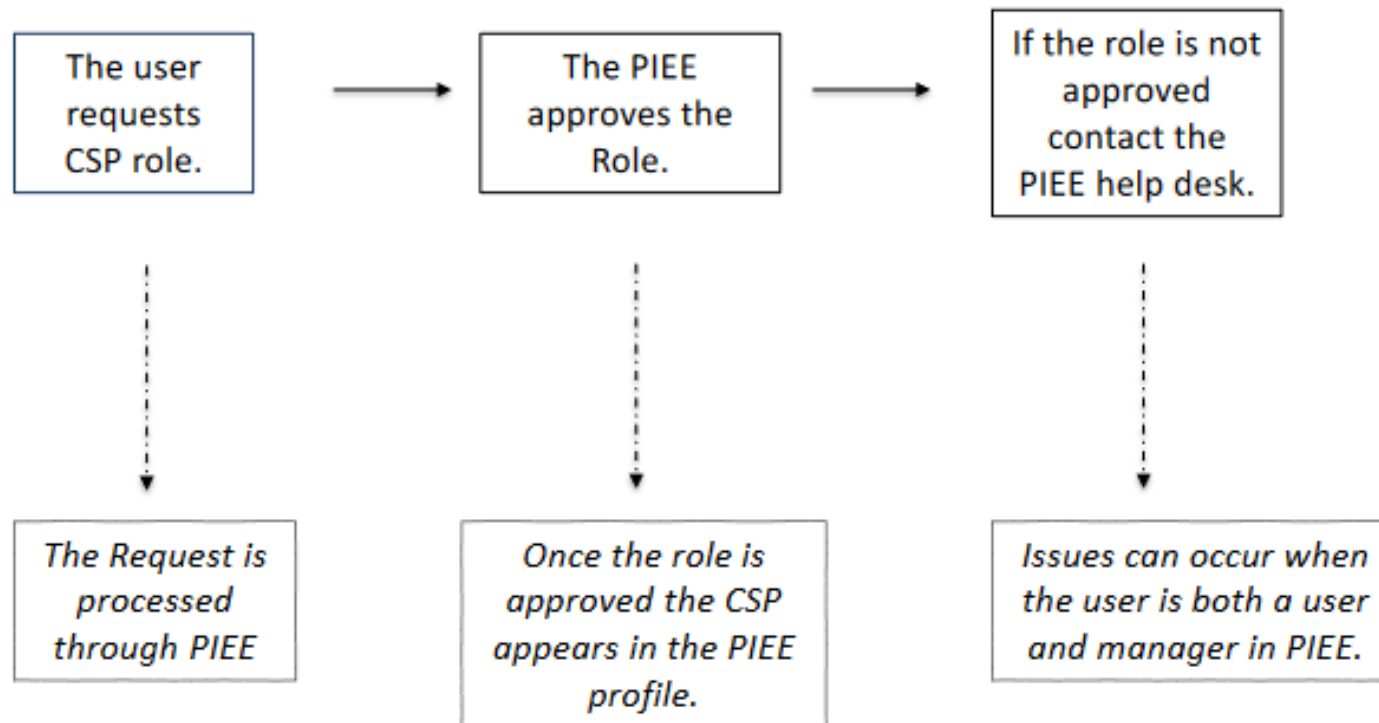
Contractor Submission Portal (CSP)

Procurement Integrated Enterprise Environment (PIEE)

ICP Submission

Login into PIEE then select CSP → Select CAGE from list (You only see CAGE codes you are approved for.) → System verifies → Verify your company Information, if incorrect get it updated.

Upload submission (25 files or 50 MB; accepts: doc, docx, ppt, pptx, xls, xlsm, cvs, jpg, jpeg, pdf, and txt. No zip files.) → Once submitted the file is transferred to DCAA SharePoint →
- Auto email to Contractor (to the contactor email verified above.)
- Auto email to cognizant DCAA FAO

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Selected Area of Cost Guidebook Update

- The Selected Areas of Cost guidebook replaced Chapter 7 of the DCAA Contract Audit Manual (CAM) in total. This guidebook addresses FAR 31.2 and other areas of cost audited.

- We are working to release updates to several section of the guidebook this year.

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SELECTED AREA OF COST GUIDEBOOK: FAR 31.205 COST PRINCIPLES

The Selected Areas of Cost guidebook replaces Chapter 7 of the DCAA Contract Audit Manual (CAM) . This Guidebook addresses FAR 31.2 and other areas of cost audited. In this first edition of the guidebook, we have expanded the previous CAM content by adding 23 additional chapters to address FAR 31.2 cost principles previously unaddressed. Initially, many sections of the guidebook are a replica of Chapter 7; however, we have rewritten and updated 13 areas of cost, listed below. Other chapters will published when completed.

- Bonus and Incentive Compensation
- Joint Ventures and Teaming Arrangements
- Depreciation
- Insurance
- IR&D/B&P
- Idle Facilities and Idle Capacity
- Legal
- Patents
- Royalties
- Consultants
- Pensions
- Alcoholic Beverages
- Manufacturing and Production Engineering

Information for Contractors (Update)

- The information for contractor guide provides an overview of the types of audits DCAA conducts, links to checklists, and what a contractor can expect in a DCAA audit.

- Initiated a project to update the content and explore alternate delivery vehicles to maximize the benefit to users.

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Information for Contractors

List of Subject Matter

- Pre-award surveys of prospective contractor accounting systems

- Price proposals

  - Proposal based on manufacturing model

- Cost Accounting Standards

- Interim and final public vouchers

  - Sample SF 1034 cover and SF 1035 backup detail public voucher

  - Sample SF 1443 Contractor's Request for Progress Payment

  - Example of Loss Ratio Factor Analysis for SF 1443

- Incurred cost proposals

  - Model incurred cost proposal

Contractor Information Survey

- Tool for obtaining information about the contractor to assist DCAA in identifying potential areas where future audit effort may be warranted
- Not an Audit
- Usually at smaller contractors with little/no audit effort in past 3-5 years.
- Assist audit team in understanding the contractor's organizational structure and business, the overall design of the contractor's accounting system, and basic information related to internal control.

See attached WORD.doc for Contractor Information Survey.

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Polling Question #4

DCAA uses outside auditors to perform proposal reviews. Those outside auditors are called IPAs.

A. *True*

B. *False*

Business Systems NDAA

- DCAA has been working on a few business system areas resulting from NDAA provisions which will impact contractors.

  - 2017 NDAA Section 893 (DFARS Case 2017-D021)

  - 2021 NDAA Section 806 (DFARS Case 2021-D006)

2017 – Revise the requirements for a review of a contractor business system.
2021 – Change from significant deficiency to material weakness.

Cybersecurity and CMMC

Embracing Technology

Third Party Risk Management

Embracing Technology Cont...

AI with Third Party Risk Management

▦ Estimated NIST 800-171 Level: **100%**

Completeness
91%

Area	Result	Completeness
ACCESS CONTROL REQUIREMENTS	100%	100%
AUDIT AND ACCOUNTABILITY REQUIREMENTS	100%	67%
AWARENESS AND TRAINING REQUIREMENTS	100%	100%
CONFIGURATION MANAGEMENT REQUIREMENTS	100%	100%
IDENTIFICATION AND AUTHENTICATION REQUIREMENTS	100%	100%
INCIDENT RESPONSE REQUIREMENTS	100%	100%
MAINTENANCE REQUIREMENTS	100%	100%
MEDIA PROTECTION REQUIREMENTS	100%	78%
PERSONNEL SECURITY REQUIREMENTS	100%	100%
PHYSICAL PROTECTION REQUIREMENTS	100%	67%
RISK ASSESSMENT REQUIREMENTS	99%	100%
SECURITY ASSESSMENT REQUIREMENTS	100%	100%
SYSTEM AND COMMUNICATIONS PROTECTION REQUIREMENTS	100%	81%
SYSTEM AND INFORMATION INTEGRITY REQUIREMENTS	100%	100%

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Manager

3.13.11

#191821777

Employ FIPS-validated cryptography when used to protect the confidentiality of CUI.
Cryptography can be employed to support many security solutions including, for example, the protection of controlled unclassified information, the provision of digital signatures, and the enforcement of information separation when authorized individuals have the necessary clearances for such information but lack the necessary formal access approvals. Cryptography can also be used to support random number generation and hash generation. Generally applicable cryptographic standards include FIPS-validated cryptography and NSA-approved cryptography. This control does not impose any requirements on organizations to use cryptography. However, if cryptography is required based on other security requirements, organizations define each type of cryptographic use and the type of cryptography required (e.g., FIPS-validated cryptography).
See NIST Cryptographic Standards; NIST Cryptographic Module Validation Program; NIST Cryptographic Algorithm Validation Program.

55.14%

Found related content in privacypolicies/⬛⬛⬛com:

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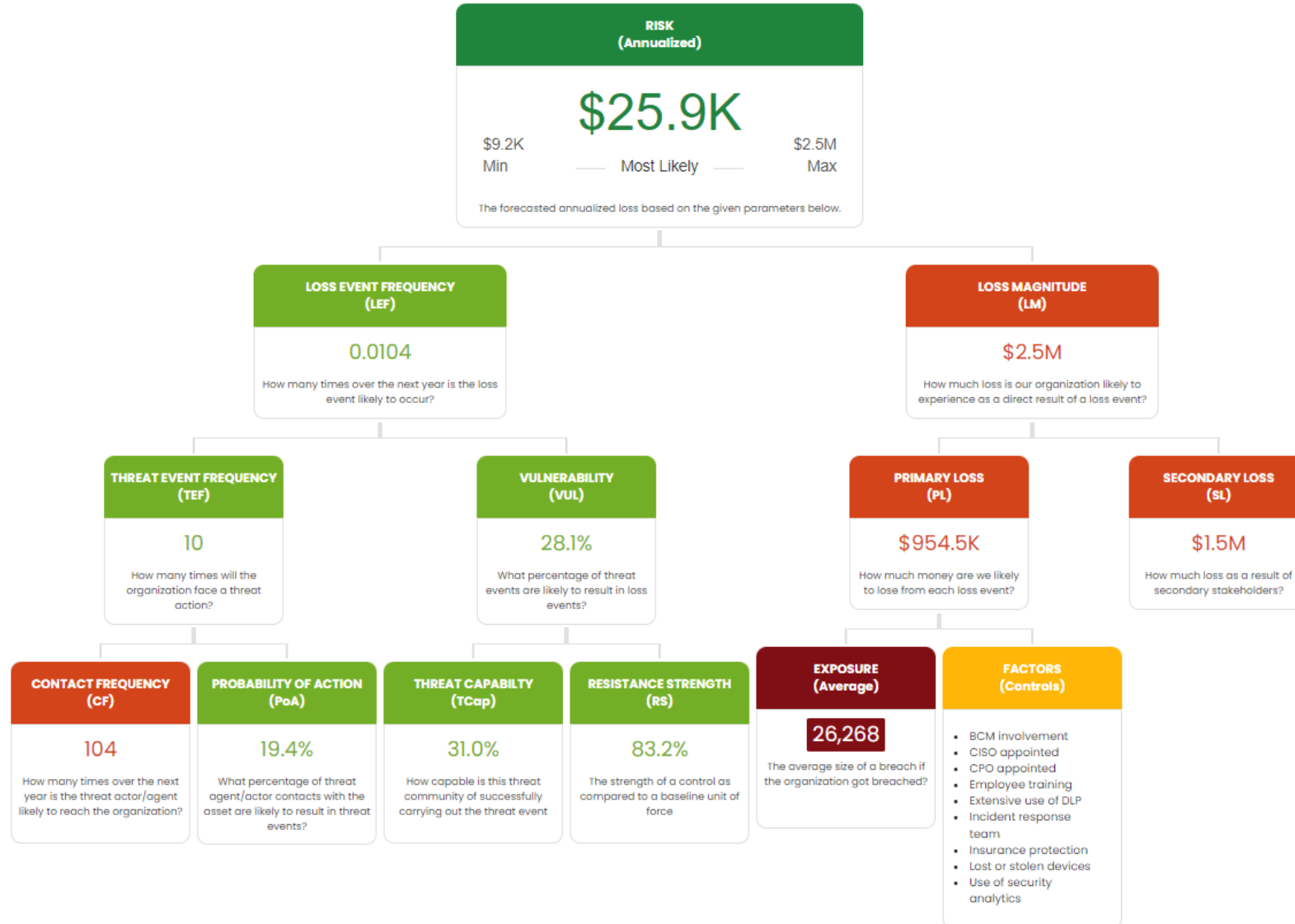
Embracing Technology Cont...

Ransomware Index
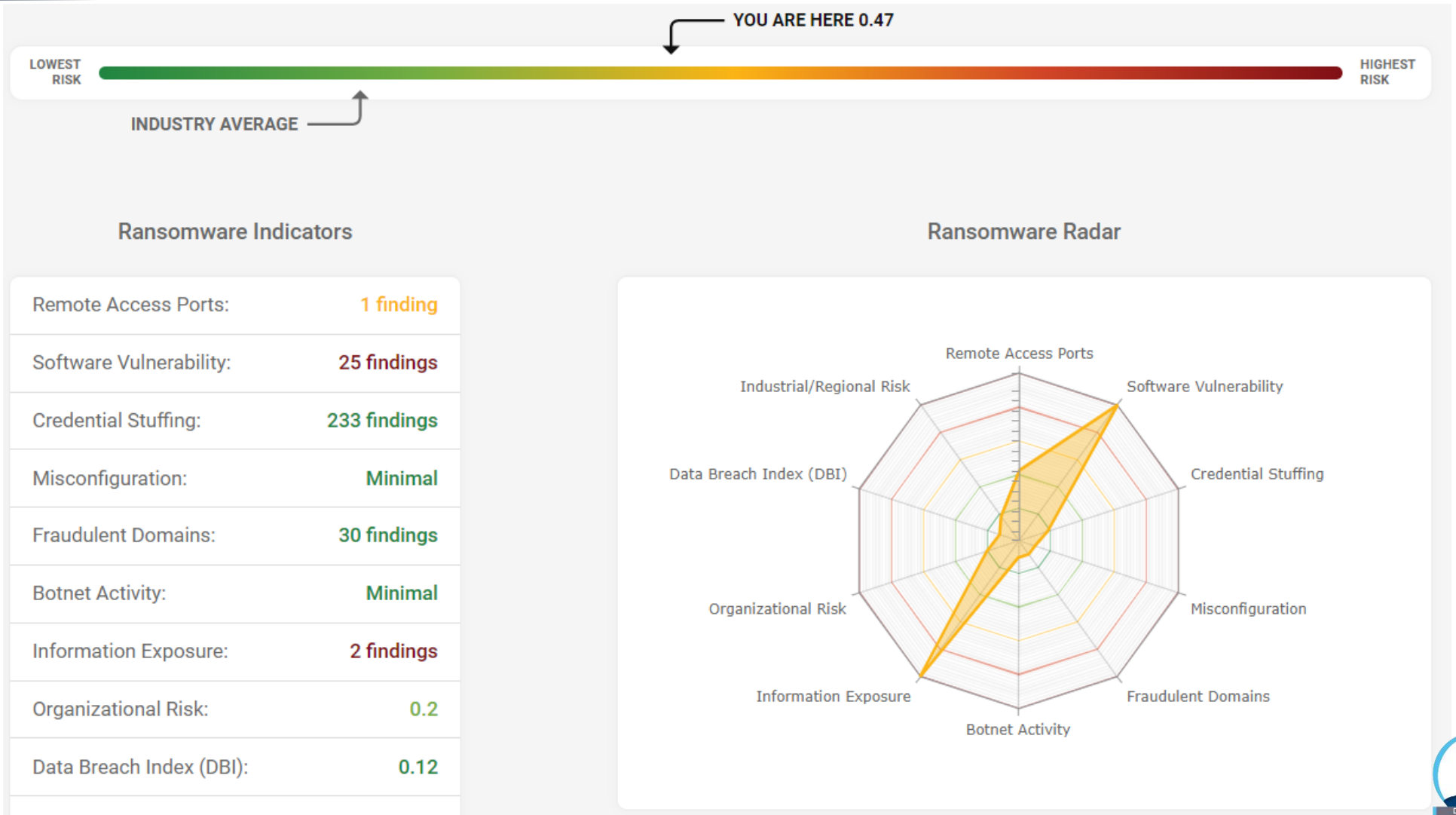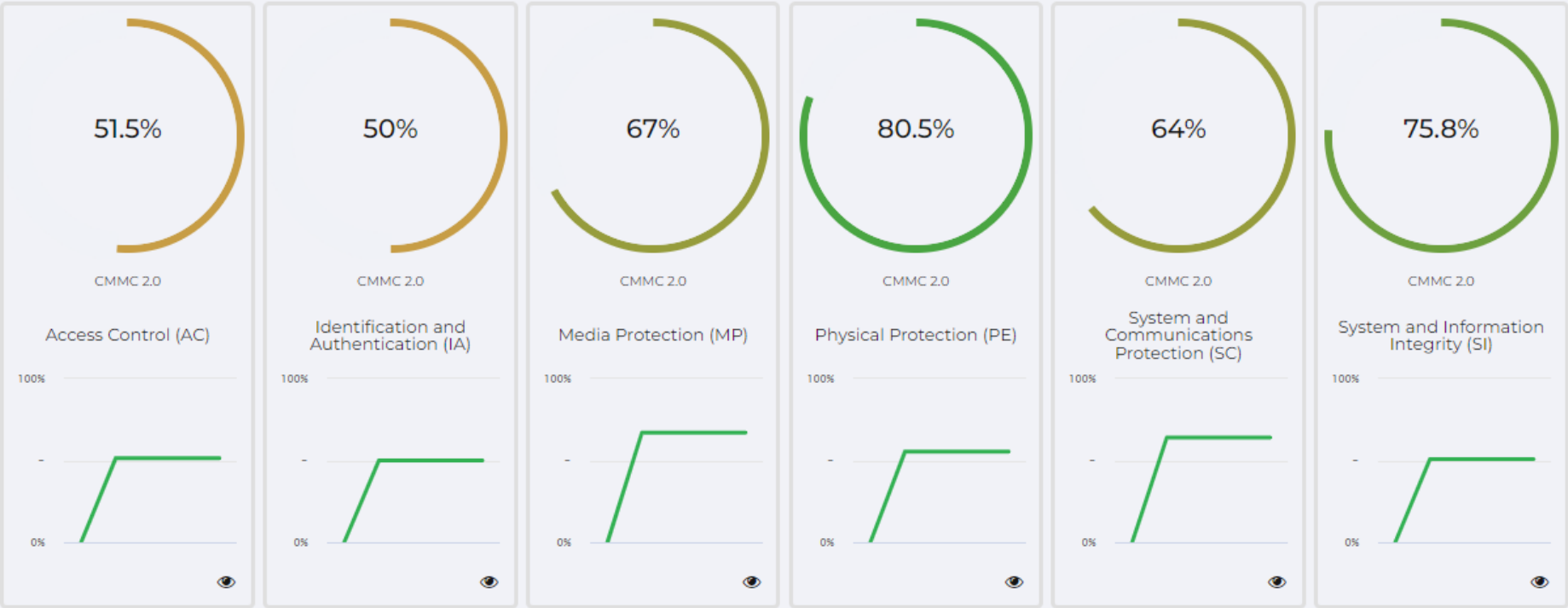
Embracing Technology Cont...

FAIR Analysis

GRC

CMMC Tracking and Compliance

GRC

CMMC Tracking and Compliance

Authorized Access Control (AC.L1-3.1.1[a]) ⊙ `100`

Overview:

Limit information system access to authorized users, processes acting on behalf of authorized users, or devices (including other information systems).

Objective Criteria:

[a] Authorized users are identified.

`Show less`

Assigned To ⊙

`Select a user...`

Vendor / Tools Used ⊙

Budget ⊙

Track Hours ⊙

`0`

Implementation Details

Start ⊙   End

Practice Status

`Met`

☐ Create As Recurring Initiative ⊙

☐ Subcontrol Not Applicable ⊙

Notes ⊙

Policy Section

Internal Control Number

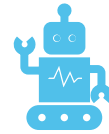Darren Hulem
Manager

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CMMC Tracking and Compliance

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Documents

Tasks

Vendor Risk
Manager

Control Activities

Risk Manager

GRC

CMMC Tracking and Compliance

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Questions?

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