

APPENDIX U
MEMORANDUM OF UNDERSTANDING – DCAA AND DHS

MEMORANDUM OF UNDERSTANDING
Between
Defense Contract Audit Agency
and
Department of Homeland Security

1. PURPOSE

This memorandum sets forth an understanding of contract audit coverage and related audit services which the Defense Contract Audit Agency (DCAA) will provide to the Department of Homeland Security (DHS) and its organizational elements (OE), hereafter referred to as “the customer”. Questions concerning provisions or implementation of this agreement will be coordinated between the Office of the Assistant Director, Operations, for DCAA and the DHS Office of the Chief Procurement Officer (OCPO). Names, phone numbers, and addresses of applicable contact points can be found in Annex I of this agreement.

2. DEFINITIONS

a. The term “abnormal travel” as used in this Memorandum of Understanding (MOU) is defined as travel which is outside the geographical area of responsibility normally serviced by a particular Field Audit Office (FAO).

b. The term “cognizant audit agency” as used in this MOU is defined as the agency with the sole responsibility, authority, or control to perform all Federal contract audits at a specific company or non-profit entity. DCAA cognizance is determined by one of the following:

(1) OMB has assigned responsibility to the Department of Defense (DoD); therefore, DCAA is the cognizant audit agency.

(2) DoD has the predominant financial interest based on contract activity; therefore, DCAA is the cognizant audit agency.

(3) The agency with the predominant financial interest and DCAA have agreed that DCAA will be the cognizant audit agency.

Once DCAA is determined to be the cognizant audit agency, the responsible audit office within DCAA is determined based on the level of audit activity and geography. If the audit activity is significant, DCAA will establish a Resident Audit Office. Otherwise, the responsible audit office is determined based on the geographical location of the contractor.

c. The term “postaward audit” as used in this MOU is defined as an audit that is performed to determine that a contractor has submitted accurate, complete, and current cost or pricing data when negotiating a contract or other pricing action with the Government. These audits are sometimes called “defective pricing” audits.

d. The term “Contracting Official,” as used in this MOU, includes contracting officers at all DHS organizational elements, whether the warrant is issued within DHS or is a carryover from the contracting official’s legacy agency.

3. INTERAGENCY FUNDING AND BILLING RESPONSIBILITIES

a. Audit services will be provided by DCAA on a reimbursable basis. Reimbursement will be based on billable audit hours at the prevailing interagency billing rate. Abnormal travel and per diem expenses required to accomplish audits are not included in the standard hourly rate and are subject to separate billing. DCAA will obtain customer approval prior to the incurrence of abnormal travel expenses.

b. Funding will be accomplished each fiscal year in separate interagency funding documents to be executed between the Office of Assistant Director, Resources, for DCAA and the DHS organizational elements.

c. When requested by the DHS OCPO and/or a DHS organizational element, DCAA will provide its best estimate of rates and hours for use in outyear projections. These estimates will be updated on a recurring basis whenever a significant change becomes known (such as a billing rate change announced by the Department of Defense).

4. DCAA RESPONSIBILITIES

a. The criteria in the DCAA Contract Audit Manual (DCAAM 7640.1) will be used to determine the following:

(1) The locations where contract audit coverage will be maintained by DCAA.

(2) Audit cognizance.

(3) Compliance with Generally Accepted Government Auditing Standards (GAGAS). DCAA will conform to GAGAS in determining the scope of audit, including the manner and the level of effort necessary to provide complete audit coverage at a contractor location. Under GAGAS the approach to contract auditing is to audit contractor systems and pursue corrective action as necessary to provide a basis for maximum reliance and to minimize the extent of contract testing necessary. Therefore, it must be understood that contract audits include DCAA evaluations of internal controls and examinations of contractor accounting and financial management systems.

b. At contractor locations where DCAA has audit cognizance, DCAA will respond to specific requests from the customer or their designee for contract audit coverage as follows:

(1) Forward Pricing Audits. DCAA will respond to all customer requests for audit of specific price proposals. This includes audits of specific proposal elements or agreed upon procedures (e.g., rate audits only). It is understood that adequate proposal audit coverage may require the DCAA auditor at the prime contractor location to request assistance from a DCAA

office at a subcontractor location. In such cases, the detail supporting the DCAA bill will show each participating DCAA office separately. Requests for audits will normally be limited to those that exceed the current dollar threshold of the applicable procurement regulations. However, in special situations, the customer may request audits of lesser amounts. Available labor and overhead information will also be provided where appropriate.

(2) Audit of Incurred Cost Proposals.

(a) DCAA audits incurred cost proposals by evaluating contractor systems, and uses statistical sampling techniques in order to address all auditable dollars at a contractor location for an entire Fiscal Year, or years. This approach is the most efficient method of evaluating incurred cost proposals at a contractor location. DCAA does not audit incurred cost proposals on a contract by contract basis, and will not audit an incurred cost proposal for only part of a year. Therefore, requests for audits of selected contracts or portions of a year at a contractor location will not be accommodated. However, DCAA does take specific contract provisions into account in audit planning and performance. Therefore, the customer should make DCAA aware of specific issues to be covered in the audit.

(b) DCAA audits are based on its policy for sampling low-risk incurred cost proposals. An audit will not be performed if the incurred cost proposal is classified as low risk and not selected for audit in the sampling process. DCAA bills these types of audits based on the relationship of an agency's cost audited, to the total cost audited. DCAA will provide the customer with an incurred cost audit report at the conclusion of the audit. If an audit was not performed because the incurred cost proposal was classified as low risk and not sampled, DCAA will provide the customer a memorandum stating that the submission was not selected for an audit. This memorandum will include the Certificate of Final Indirect Costs, signed rate agreement, schedule of direct and indirect costs proposed during the fiscal year (Schedule H), and cumulative allowable cost worksheet, if this can be readily prepared. Estimates for billable hours for incurred cost audits (identified as DCAA self-initiated effort) will be separately identified in a letter to the agency notifying them of the DCAA estimate. It must be understood that once the self-initiated budget is established, it cannot be reduced by the customer to cover unplanned demand effort. If the customer desires an audit of an incurred cost proposal at a contractor where DCAA is not cognizant, the customer will issue a request for audit in accordance with paragraph 5a of this agreement. DCAA will process such requests in accordance with paragraph 4c of this agreement. When DCAA agrees to process such requests, the cost of these audits will be charged against the budget for demand audits identified in the DCAA estimate.

(3) Other Incurred Cost Audits.

(a) Other incurred cost audits are defined as audits of incurred cost not related to the contractor's annual incurred cost proposal. Such audits would include, but are not limited to, the following types of audits: Final Price Submissions, Provisional Billing Rate Audits, Terminations, Equitable Adjustment Claims, Hardship Claims, Escalation Claims, Progress Payments, and Other Special Audits necessary to protect the Government's interests. If DCAA believes that one of the above type audits is necessary based on conditions or information coming to its attention, the customer will be notified.

(b) DCAA will respond to all customer requests for other incurred cost audits at locations where DCAA is cognizant.

(4) Cost Reimbursement Voucher Processing. DCAA will process vouchers in accordance with Annex II of this agreement.

(5) Contract Closeout. Subject to the status of applicable incurred cost audits, DCAA will issue a memorandum on the evaluation of the final voucher upon request. DCAA bills for the direct effort required to reconcile the contractor's final claim to amounts previously audited, or accepted based on determination of low risk. After reconciliation, DCAA prepares a memorandum on the evaluation of the final voucher. If there are years for which the contract has not been audited due to the customer declination to issue audit requests, DCAA may choose to conduct the additional work necessary to perform the closeout effort, or may decline the request.

(6) Postaward Truth in Negotiation (TINA) Audits. DCAA will perform postaward TINA audits for all contracts identified by the customer in accordance with paragraph 5d of this agreement. If requested DCAA will compile a recommended list of contracts for customer consideration.

(7) Financial Advisory Services. DCAA will provide general advice on accounting, auditing, and financial matters in areas of DCAA responsibility, and facilitate and coordinate audit services with Field Audit Offices (FAOs.)

(8) Other. Includes investigative support, negotiation assistance, and contracts appeals. A complete listing of reimbursable DCAA activities is available upon request.

c. At a contractor location where DCAA is requested to perform an audit, but has never had an audit presence, or has not audited at that contractor location for the past several years, DCAA will try to accommodate the customer's audit request. Such decisions are made on a case-by-case basis when there is sufficient information to show that it would be in the best interest of the Government for DCAA to do the audit.

d. DCAA will provide estimates of billable time and starting and completion dates for the audit. These estimates are only to be used for planning purposes; actual hours and timeframes incurred may differ. DCAA cannot agree to perform an individual audit within a preapproved budget but will make every effort to stay within the budget. DCAA will obtain customer approval prior to incurring expenses in excess of the preapproved budget, and will provide explanations of significant differences between estimated time and actual time billed on an assignment. After receipt of a request from the customer, the assignment will be set up and completed in accordance with established procedures.

e. DCAA field offices will solicit input from the customer or their designee during the budget formulation process for succeeding year audits, to ensure that customer concerns are addressed in planning. The budget process normally takes place in August of each year.

f. Headquarters, DCAA, will promptly transmit to the DHS Inspector General reports of suspected contractor fraud or other wrongdoing whether disclosed by outside sources or

detected through performance of the contract audit function. If the DHS OIG initiates an investigation, and audit support is requested by that agency through the Department of Justice, the benefiting Government agencies will be billed their pro rata share of the audit support.

g. DCAA field offices will promptly send a copy of the audit report to whomever is designated in the request. In addition, copies of the following types of audit reports will be provided to the DHS Office of Chief Procurement Officer, Director, Oversight and Strategic Support Division, electronically, to Procurement.Support@hq.dhs.gov:

- (1) Audits of Incurred Cost Submissions and Low Risk Memorandums;
- (2) Contractor Internal Control System Reviews (accounting system reviews, estimating system reviews, compensation reviews, etc.);
- (3) Audits of Compliance with Cost Accounting Standards;
- (4) Audits of Cost Impact of Cost Accounting Standards (changes in cost accounting practice and/or noncompliances);
- (5) Defective Pricing Audits (Reviews for Compliance with the Truth in Negotiation Act);
- (6) All DCAA reports and memorandum that contain questioned costs or cost disallowances; and
- (7) All DCAA Form 1s.

h. Upon request by DHS OCPO, DHS Inspector General, or a DHS organizational component, DCAA will make available audit working papers relating to a customer's contract. The requestor will review such work papers at the applicable DCAA office and can make copies of any work papers deemed appropriate. DCAA will retain the original work papers in DCAA files.

i. Third-party requests (e.g., media, FOIA, non-participating agencies, Congress, etc.) received by DCAA for access to resultant audit reports and underlying work papers will be coordinated with the DHS OCPO and the DHS affected organizational component(s).

5. CUSTOMER RESPONSIBILITIES

a. DHS organizational elements will address requests for audits directly to the cognizant DCAA field office. Initial contacts may be made by telephone with a written confirmation to follow. At a minimum, the following items will either be included with the request or addressed in the request:

(1) A copy of the contractor's submission to be audited should be submitted along with the audit request. This submission should be prepared in accordance with Federal

Acquisition Regulations (FAR) and/or other applicable agency requirements. DCAA will work with the customer, if requested, to assist in defining an adequate submission.

(2) Billing reference numbers, if required by the customer, will be in the audit request. If no reference numbers are in the request, DCAA will assume they are not required.

(3) Audit report distribution requirements will be in each audit request; otherwise, distribution will be handled in accordance with paragraph 4g.

b. Contracts to be covered by audits shall include an access to records clause and a clause incorporating the cost principles set out in the FAR or other applicable agency guidelines.

c. The customer agrees to pay for incurred cost audit coverage at all locations where DCAA is the cognizant auditor and customer contract costs are part of the total auditable cost.

d. By August 15, prior to the beginning of the fiscal year, the customer will provide the Office of Assistant Director, Operations, DCAA, with a listing of all contract pricing actions for which the customer wants DCAA to perform a postaward audit in the next Fiscal Year. The listing will provide the contract number (and modification number if appropriate), contract value, type of contract, and name and location of the contractor. This listing will constitute specific authority by the customer for DCAA to perform, and bill for, postaward audits.

e. The DHS OCPO is responsible for follow-up on the contracting officer's implementation of DCAA audit recommendations, as required by OMB Circular A-50. As part of the audit-follow up process, for each audit report that is received, the Contracting Officer shall provide the cognizant DCAA office a copy of the price negotiation memorandum promptly after contract award. This memorandum should clearly address resolution of the audit findings. If the contractor for which the audit was provided is not the awardee, the contracting officer shall notify DCAA in writing of this fact. The price negotiation memorandum and/or the notification serves as the basis for DCAA disposition of the audit findings. Within 30 days after the end of each quarter (quarters ending March 31, June 30, September 30, and December 31), DCAA shall provide the DHS OCPO a listing of all open reports of audits conducted at the request of DHS (open reports are those audit reports for which DCAA has not dispositioned the findings).

f. The customer is responsible for review of program results to determine if the goals and objectives of organizations, programs, activities, or functions established by laws or regulations are attained, as required by applicable General Accounting Office (GAO) audit standards

g. When the customer becomes aware of any internal or external reviews, including reviews by the customer, GAO, investigative agencies, etc., which may impact on the audit services furnished by DCAA, the customer will notify and will coordinate in advance with the local DCAA office affected by the review. If several DCAA offices will be affected by the review, the customer can coordinate in advance with the Office of the Assistant Director, Operations, DCAA. In this regard, to the extent the customer has control, appropriate sections of draft reports which result from such reviews will be provided to permit comment on those matters involving DCAA.

h. The customer will use only DCAA audit services to perform all contract audit functions at locations where DCAA is the cognizant auditor to preclude dual or split audit cognizance, unless DCAA acknowledges that it cannot provide the assistance required because: it concerns matters beyond the proper role of DCAA, it would result in undue delays or inefficiencies in the accomplishment of customer objectives, or it is not in the best interest of the Government.

6. DURATION

This MOU may be terminated by any party at any time by issuance of a written notice 60 days in advance of the intended termination date.

7. ANNEXES

a. The following Annexes are enclosed and considered an integral part of this agreement:

ANNEX I CUSTOMER CONTACT POINTS FOR MEMORANDUM OF UNDERSTANDING

ANNEX II COST REIMBURSEMENT VOUCHER PROCESSING PROCEDURES

b. Further Annexes to this MOU may be negotiated by the responsible agencies' executives and will be treated as an integral part of this agreement.

DEPARTMENT OF HOMELAND SECURITY

[SIGNED] _____
William J. Thoreen
Executive Director
Oversight and Strategic Support

10/30/2015
Date

DEFENSE CONTRACT AUDIT AGENCY (SERVICE PROVIDER)

[SIGNED] _____
Thomas J. Peters
Assistant Director, Operations

10/6/2015
Date

ANNEX I
CUSTOMER CONTACT POINTS FOR MEMORANDUM OF UNDERSTANDING
Between
Defense Contract Audit Agency
and
Department of Homeland Security

1. PURPOSE

This annex identifies the names, titles, addresses, and phone numbers of the appropriate contact points for DCAA and the DHS OCPO as discussed in the Memorandum of Understanding (MOU). It is recognized that individuals and organizations change periodically. It is intended that this annex be updated as necessary without changing the content of the MOU. Updates to this annex will be coordinated between the Office of the Assistant Director, Operations, for DCAA, and the DHS OCPO.

2. CUSTOMER CONTACT POINTS

The following individual should be contacted for questions concerning provisions or implementation of the MOU:

William J. Thoreen
Executive Director
Oversight & Strategic Support
Office of the Chief Procurement Officer
U.S. Department of Homeland Security
Washington, DC 20528
(202) 447-0726

Hyosun Ro
Director
Oversight & Pricing Branch
Office of the Chief Procurement Officer
U.S. Department of Homeland Security
Washington, DC 20528
(202) 447-5401

Eileen Klase
Procurement Analyst
Office of the Chief Procurement Officer
U.S. Department of Homeland Security
Washington, DC 20528
(202) 447-5217

3. DCAA CONTACT POINTS

Thomas J. Peters
Assistant Director
Operations
Headquarters, DCAA
8725 John J. Kingman Road, Suite 2135
Fort Belvoir, VA 22060-6219
(703) 767-2290

Maureen B. Higgins
Assistant Director, Human Capital and
Resource Management
Headquarters, DCAA
8725 John J. Kingman Road, Suite 2135
Fort Belvoir, VA 22060-6219
(703) 767-2247

Paulette Stephens
Program Manager, Workload Analysis Div.
Headquarters, DCAA
8725 John J. Kingman Road, Suite 2135
Fort Belvoir, VA 22060-6219
(210) 652-0779

4. PROCEDURES REGARDING REQUESTS FOR AUDIT SERVICES

a. Annual Financial Agreement. Each DHS organizational element that anticipates utilizing contract audit services from DCAA shall complete an Annual Financial Agreement with DCAA. DCAA will provide the annual financial agreements for each of the organizational elements. The agreement shall define the amount of annual effort for a fiscal year period between each organizational element and DCAA. The original annual financial agreements should be returned to DCAA prior to September 30.

b. Funding Documents. Each organizational element shall submit an approved funding document prior to the start of the fiscal year audit effort to DCAA. The organizational element shall use funding documents, Inter-agency Agreements and Inter-Agency Agreement Orders to request audit services.

c. Audit Requests. The DHS organizational element shall send the official audit request to the cognizant DCAA branch offices. Audit request acknowledgement letters shall be sent to the organizational element identifying requested audit services.

d. Audit Reports. Completed DCAA audit reports will be sent to the requesting organizational element. In addition, copies of the types of audit reports listed in paragraph 4g of the MOU will be provided to the OCPO Director of Oversight and Strategic Support.

5. PROBLEM RESOLUTION PROCEDURES REGARDING AUDIT SERVICES.

In the event the customer is not satisfied with the content of a DCAA audit report, generally, the quickest method of resolving this is for the customer to discuss their concerns with the Field Audit Office (FAO) Manager of the DCAA office providing the service. If the parties do not receive satisfactory resolution to their concerns at this level, the parties should contact the Regional Audit Manager responsible for the applicable field office. If a satisfactory resolution is still not received, or if the parties want to discuss a problem with someone at DCAA Headquarters, they should contract the Workload Analysis Division (OWD), Operations, DCAA Headquarters, to voice their concerns. This division will identify the appropriate individuals required to achieve resolution and advise senior level agency management of significant agency problems.

DEPARTMENT OF HOMELAND SECURITY

[SIGNED] _____
 William J. Thoreen
 Executive Director, Oversight and Strategic Support

10/30/2015

 Date

DEFENSE CONTRACT AUDIT AGENCY (SERVICE PROVIDER)

[SIGNED] _____
 Thomas J. Peters
 Assistant Director, Operations

10/6/2015

 Date

ANNEX II
COST REIMBURSEMENT VOUCHER PROCESSING PROCEDURES
Between
Defense Contract Audit Agency
and
Department of Homeland Security

1. PURPOSE

This annex sets forth the procedures by which the Defense Contract Audit Agency (DCAA) will provide cost reimbursement voucher processing to the Department of Homeland Security.

2. REQUIREMENTS

DCAA must perform and bill for incurred cost audits at the contractor location in accordance with paragraph 4b(2) of the MOU in order to be involved in processing vouchers.

3. PROCEDURES

DHS cost reimbursement and T&M/LH contracts may require the contractor to submit a copy of the voucher to DCAA at the same time as the original is sent to the COTR/contracting officer, who will certify and process them for payment. DCAA will review vouchers in accordance with Agency procedures. DCAA will review all first vouchers submitted under the contract or delivery order and sample the remaining vouchers using the FAO-established sampling techniques consistent with the methodology used for DoD voucher review sampling (CAM 6-1008). Since DHS has no contracts subject to direct billing, if the contractor has direct billing for DoD and/or any other Government contracts, auditors shall ensure the interim vouchers related to DHS contracts are included in the universe for selection when performing its annual review of paid vouchers. In addition, for any particular voucher, a contracting officer can request a review of that specific voucher if the contracting officer has concerns.

Auditors will notify the contracting officer immediately of any issues identified during the voucher review. If the auditor identifies a concern (e.g., inaccuracies, questionable or unsupported costs) with the DHS voucher selected for review, the auditor should notify the contracting officer in writing and include any suspended or disapproved costs with a recommendation that the amount questioned be deducted from the next available voucher. No notification to the constraint officer is necessary if the auditor's review disclosed no exceptions.

DEPARTMENT OF HOMELAND SECURITY

[SIGNED] _____
William J. Thoreen
Executive Director, Oversight and Strategic Support

10/30/2015
Date

DEFENSE CONTRACT AUDIT AGENCY (SERVICE PROVIDER)

[SIGNED] _____
Thomas J. Peters
Assistant Director, Operations

10/6/2015
Date