

APPENDIX U
MEMORANDUM OF UNDERSTANDING – DCAA AND DHS

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

1. PARTIES

The parties to this Memorandum of Understanding (MOU) are the Department of Homeland Security (DHS) and the Defense Contract Audit Agency (DCAA).

2. AUTHORITY

This agreement is entered into under the provisions of the Economy Act of 1932, as amended (31 U.S.C. 1535) and 48 C.F.R. Subpart 42.002.

3. 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, 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 customer. Names, phone numbers, and addresses of applicable contact points can be found on the most current General Terms and Conditions (GT&C) and Order in G-Invoicing ([GINV PROD \(treasury.gov\)](#)).

4. 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 agreed that DCAA will be the cognizant audit agency.

5. 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 abnormal travel.

b. Funding for customer requested audit effort will be accomplished each Fiscal Year in interagency funding documents (using G-Invoicing to complete a GT&C and Order) to be executed between the Office of Assistant Director, Resources, for DCAA and the customer. The interagency funding document(s) can list individual or multiple audits requested by the customer. The customer will promptly notify the Office of Assistant Director, Operations, DCAA, in advance when it becomes aware that there are indications of a significant change in the level of contract audit requirements and will affirm that there are sufficient funds for the level of effort to be provided. DCAA will notify the customer if the hours appear likely to increase. In the absence of notification, it can be anticipated that DCAA billings will be reasonably close to the funding estimate in the IAA Order Requirements and Funding Information.

c. When requested by the customer, DCAA will provide the customer with 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).

6. DCAA RESPONSIBILITIES

a. The criteria in the current DCAA Contract Audit Manual 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 the current Generally Accepted Government Auditing Standards (GAGAS). DCAA will conform with 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 sampling techniques 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 take specific contract provisions into account in audit planning and performance, therefore, the customer should make DCAA aware of specific issues related to that contract to be covered in the audit.

(b) DCAA will audit incurred cost proposals at all contractor locations where DCAA is cognizant and auditable dollars have been identified as follows:

(i) Each incurred cost proposal received and determined adequate by the FAO will be assessed for sampling eligibility. Based on this assessment, it will be determined either eligible or not eligible for sampling. DCAA procedures call for all ineligible proposals to be audited. Eligible proposals will be selected for audit using random sampling techniques. Assignments not selected for audit will be closed with a sampling memo, previously referred to as a “low-risk memo.” This guidance does not apply to educational institutions. DCAA bills these types of audits based on the relationship of an agency’s cost audited to the total cost audited.

(ii) DCAA will provide the customer or its designee with an incurred cost audit report at the conclusion of the audit or a copy of the sampling memorandum if the customer agrees to participate in the sampling process. Estimates of billable hours for incurred cost audits (identified as DCAA self-initiated effort) will be separately identified and DCAA will notify the customer of the estimate. It must be understood that once the self-initiated budget is established, it cannot be reduced by the customer to cover unplanned audit effort.

(iii) 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 7a. of this agreement. DCAA will process such request in accordance with paragraph 6c. of this agreement.

(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: Evaluation of Provisional Billing Rates, Termination Proposals, Equitable Adjustment 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) Interim Voucher Review. Upon request, DCAA will review an interim voucher to verify that costs billed are allowable, allocable, and reasonable in accordance with contract terms, applicable generally accepted accounting principles, cost accounting standards and Government acquisition regulations.

(5) Contract Closeout. Subject to the status of applicable incurred cost audits, DCAA will evaluate the final voucher upon request. DCAA bills for the direct effort required to reconcile the contractor's final claim to amounts previously audited. 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 Audits. DCAA will perform postaward audits for all contracts identified by the customer in accordance with paragraph 7d. of this agreement. If requested, DCAA will compile a recommended list of contracts for customer consideration. The term "postaward audit" as used in this MOU is defined as an audit which 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.

(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 cognizant Field Audit Offices (FAOs).

(8) Other. Includes investigative support, negotiation assistance, and contract appeals.

The listing above is not all inclusive; a complete listing of reimbursable DCAA activity 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, but if DCAA determines that it lacks adequate resources to perform the audit, it may decline the request. Such decisions are made on a case by case basis.

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. After receipt of a request from a customer, the assignment will be set up and completed in accordance with established procedures. If, after the audit has started, it appears a due date or budget will not be met, DCAA should provide an explanation of significant differences and get approval for deviations in advance. If overbilling does occur, and it is DCAA's error, DCAA will take immediate action to correct.

e. DCAA field offices will solicit input from the customer or their designee during the program planning process for succeeding year audits, to assure that customer concerns are addressed in planning.

f. Headquarters, DCAA, will promptly transmit to the customer and the customer's Inspector General (IG) reports of suspected contractor fraud or other wrongdoing whether disclosed by outside sources or detected through performance of the contract audit function. If the customer initiates an investigation, and audit support is requested by the customer or 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 and to DHS Office of Chief Procurement Officer, Executive Director, Acquisition Policy and Oversight Division (ProcurementSupport@hq.dhs.gov).

h. DCAA will make available specific audit working papers upon customer request when additional information is needed to understand a specific finding. DCAA will retain the original workpapers in DCAA files.

7. CUSTOMER RESPONSIBILITIES

a. The customer will issue requests for audits and address them 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 the Federal Acquisition Regulation (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 6g.

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 contractor levels (e.g., Corporate Offices, Shared Services) for direct contract costs and allocable indirect costs.

d. 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 post award audit. The listing will provide the contract number (and modification number if appropriate), contract value, type of contract, and name and location of the contractor.

e. The customer is responsible for follow-up on the Contracting Officers' 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 finding. 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 serve as the basis for DCAA disposition of the audit 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 Government Accountability 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.

8. POINTS OF CONTACT

For the DHS, the Point of Contact available to respond to questions and inquiries related to this Memorandum of Understanding is the Oversight and Pricing Branch, Acquisition Policy and Oversight Division within the Office of the Chief Procurement Officer. All inquiries should be directed to the mailbox: ProcurementSupport@hq.dhs.gov.

For the DCAA, the Point of Contact is Workload Analysis Division (OWD), Operations, DCAA Headquarters. All inquiries should be directed to the mailbox: dcaa.belvoir.hq.mbx.dcaa-owd@mail.mil

9. DURATION AND TERMINATION

This MOU is effective upon the date and time of the last signature. It may be terminated by either party at any time by issuance of a written notice 60 days in advance of the intended termination date.

10. MODIFICATION

This MOU may be modified upon the mutual written consent of the parties.

11. BASIS FOR REIMBURSEMENT

a. This agreement is entered into under the provisions of the Economy Act of 1932, as amended (31 U.S.C. 1535) and provides for reimbursable orders issued by the customer for audit requirements at an estimated annual agreed upon amount. Orders are subject to modification as necessary to provide for reimbursement of costs as described below in providing the requested support.

b. Reimbursement under the terms of this agreement shall be for the costs incurred by DCAA in providing contract audit services.

12. PAYMENT OF BILLS

Under the provisions of 31 CFR 208, and The Debt Collection Improvement Act of 1996, federal payments are to be made electronically through the Intra-Governmental Payment and Collection System. In accordance with the Economy Act and federal financial management regulations, bills rendered shall not be subject to advance payment.

13. 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 customer does not receive satisfactory resolution to their concerns at this level, the customer should contact

the Regional Audit Manager responsible for the applicable field office. If a satisfactory resolution is still not received, or if the customer wants to discuss a problem with someone at DCAA Headquarters, the customer should contact the Workload Analysis Division (OWD), Operations, DCAA Headquarters, to voice their concerns. This division will identify the appropriate individuals required to achieve customer resolution and advise senior level agency management of significant agency problems.

Department of Homeland Security
Office of the Chief Procurement Officer

Department of Defense
Defense Contract Audit Agency

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Ann Van Houten
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