



Audit Expectations for Small Businesses

DEFENSE CONTRACT CONSULTING

Joseph A. Dalton, CGFM/CFE/CAP

Over 31 Years -Supervisory/Auditor Service- DCAA

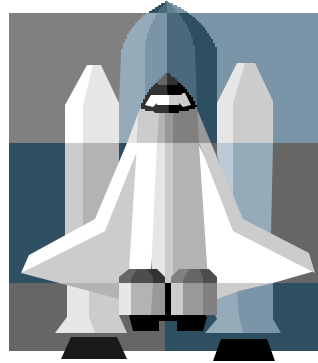
Retired Captain, U. S. Naval Reserve – 1996

BUSINESS NO. (562) 480-4142



THE THREE GOVERNMENT AGENCIES YOU WILL MOST LIKELY ENCOUNTER BEFORE AND AFTER A CONTRACT AWARD ARE:

- 1. DOD/NASA PROCUREMENT OFFICE**
- 2. DEFENSE CONTRACT MANAGEMENT AGENCY (DCMA)**
- 3. DEFENSE CONTRACT AUDIT AGENCY (DCAA)**



- **THE PRIMARY PURPOSE OF THE DOD/NASA PROCUREMENT OFFICES IS:**
 1. **SOLICIT BIDS FROM PROSPECTIVE CUSTOMERS (MAJOR AND NON-MAJOR CONTRACTORS) TO PROCURE MILITARY OR NASA REQUIRED PARTS, EQUIPMENT OR SERVICES. THIS FUNCTION IS PERFORMED BY THE PROCURING CONTRACTING OFFICER (PCO).**
 2. **NEGOTIATE CONTRACTS BETWEEN PROSPECTIVE CONTRACTORS (MAJOR AND NON-MAJOR) AND THE U.S. GOVERNMENT (DOD/NASA).**

THE PURPOSE OF THE DEFENSE CONTRACT MANAGEMENT AGENCY (DCMA) IS TO:

1. **NEGOTIATE** SMALL CONTRACTS AS DIRECTED BY THE PCO BETWEEN PROSPECTIVE CONTRACTORS AND THE U.S. GOVERNMENT.
2. **PERFORM ADMINISTRATIVE** TASKS AS DIRECTED BY THE PCO IN THE CONTRACT (SUCH AS REVIEWING AND REQUESTING AUDITS OF PROGRESS PAYMENTS, INVOICING DFAS FOR PAYMENTS, REVIEWING AND REQUESTING AUDITS OF FINAL VOUCHERS, ETC.)



•YOU NEED TO KNOW THE NAME OF YOUR COGNIZANT ADMINISTRATIVE CONTRACTING OFFICER.



- **THE PRIMARY PURPOSES OF THE DEFENSE CONTRACT AUDIT AGENCY (DCAA) IS:**
 1. **PERFORM ALL CONTRACT AUDITS FOR THE DEPARTMENT OF DEFENSE (DOD).**
 2. **PROVIDE ACCOUNTING AND FINANCIAL ADVISORY SERVICES, IN CONNECTION WITH THE NEGOTIATION, ADMINISTRATION AND SETTLEMENT OF CONTRACTS AND SUBCONTRACT TO ALL DOD PROCUREMENT AND CONTRACT ADMINISTRATION ACTIVITIES.**

THE FIRST TIP TOWARD MAKING YOUR BUSINESS MORE COMPETITIVE IN THE DEFENSE CONTRACT ARENA IS TO PERFORM SOME TYPE OF PUBLIC RELATION BY:



•INTRODUCING YOURSELF AND COMPANY TO YOUR COGNIZANT ACO AND DCAA REPRESENTATIVES.

•GET TO KNOW THE NAME AND TELEPHONE NUMBER OF YOUR COGNIZANT ACO AND DCAA SUPERVISORY AUDITOR.



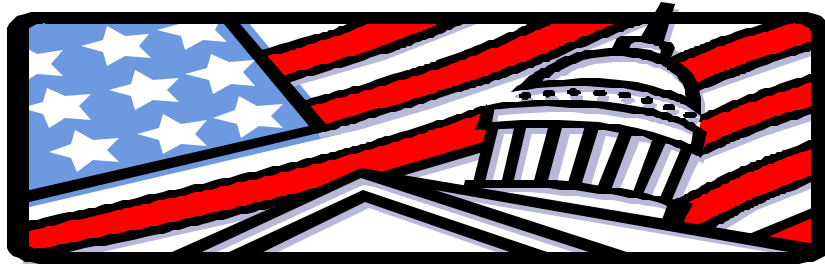
WHAT AUDITS ARE NORMALLY PERFORMED BY DCAA ON SMALL BUSINESSES AWARDED DOD CONTRACTS?

1. AUDIT OF COST TYPE PROPOSAL > \$10 MILLION (RATES AND FACTORS ONLY – AUDIT REPORT NO: 2005Z2700001).

2. AUDIT OF FIRM FIXED PRICE PROPOSAL > \$550 THOUSAND (FULL AUDIT –AUDIT REPORT NO. 2005Z21000001)

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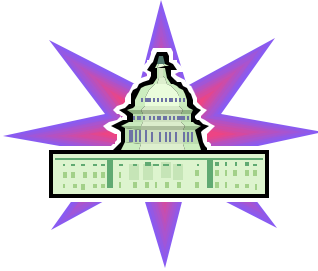


4. PREAWARD ACCOUNTING SYSTEM SURVEY AND POSTAWARD ACCOUNTING SYSTEM AUDIT :

PERFORMED TO DETERMINE IF YOUR ACCOUNTING SYSTEM IS ADEQUATE FOR THE RECORDING AND REPORTING OF COSTS ON GOVERNMENT CONTRACTS.

(IT IS VIRTUALLY IMPOSSIBLE TO BE COMPETITIVE IN THE DEFENSE CONTRACT ARENA WITHOUT AN ADEQUATE ACCOUNTING SYSTEM)

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5. **AUDIT OF FINAL INDIRECT RATE CLAIM.**

FINAL INDIRECT RATE CLAIMS ARE REQUIRED BY EACH CONTRACTOR AWARDED COST TYPE, TIME AND MATERIAL OR FLEXIBLY PRICED CONTRACT. CLAIMS ARE DUE TO GOVERNMENT 6 MONTHS AFTER END OF FISCAL YEAR.

6. **LABOR FLOOR CHECK AUDIT.**

PERFORMED ON SMALL CONTRACTORS EVERY 3 YEARS (IF NO CONDITIONS ARE FOUND IN PRIOR YEAR AUDITS.

7. **CONTRACT AUDIT CLOSURE STATEMENT**

AUDIT OF YOUR FINAL PUBLIC VOUCHER ON ALL COST TYPE, TIME AND MATERIAL OR FLEXIBLY PRICED CONTRACTS.

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8. FINANCIAL CAPABILITY AUDIT

- (a) Limited Financial Risk Assessment
– performed yearly.**

- (b) Detailed financial capability risk
assessment – performed
every three years**



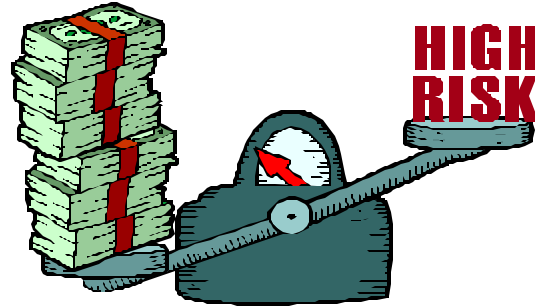


WHAT MAKES A SMALL BUSINESS MORE SUSCEPTIBLE TO AUDIT ?

1. CLASSIFIED AS A HIGH RISK.
2. MATERIALITY OF CONTRACT.
3. TYPE OF CONTRACT



- SOME FACTORS DCAA USES TO DETERMINE HIGH RISK ARE:



1. FINANCIAL STABILITY
2. ADEQUACY OF ACCOUNTING SYSTEM
3. EXPRESSLY UNALLOWABLE COSTS FOUND DURING AUDIT OF FINAL INDIRECT RATE CLAIM.

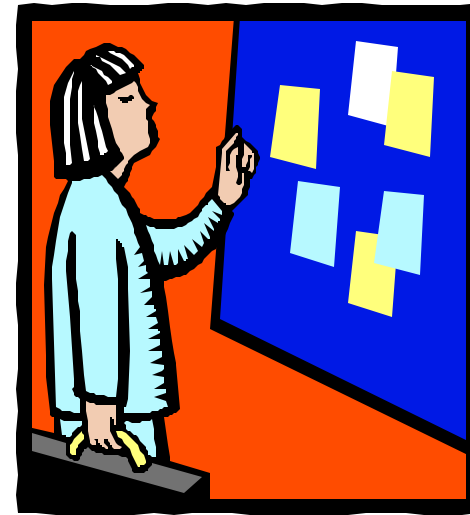
- **HOW DOES MATERIALITY AND TYPE OF CONTRACT CAUSE A SMALL BUSINESS TO BE MORE SUSCEPTIBLE TO AUDIT?**

1. **FFP contracts > \$550 K**

2. **Cost type contracts > \$10 Mil**



- **WHAT ARE THE CRITERIA THAT ARE NEEDED TO BE MORE COMPETITIVE IN THE PROCUREMENT OF GOVERNMENT CONTRACTS?**
- **1. PUBLIC RELATION (PR)- KNOW YOUR GOVERNMENT PROCURMENT COUNTERPART.**
- **2. ESTABLISH YOUR COMPANY INTERGRITY WITH GOVERNMENT PROCUREMENT COUNTERPART BY:**
 - **(a) Maintaining an adequate accounting and estimating system in accordance with FAR.**
- **Con't**



- **(b) Screen your proposals or indirect rate expenses to ensure that unallowable and expressly unallowable costs are excluded.**
- **(c) Submit all required ICQ/claims and other data requested on time. (stay off DCAA Late claims lists).**
- **(d) Obtain an independent opinion of your operation, (accounting system, estimating system, indirect cost proposals, etc.).**





**LET HONESTY AND INTEGRITY
BE YOUR COMPANY POLICY!**

IT PAYS!

DEFENSE CONTRACT CONSULTING

'A HELPING HAND FOR UPWARD SUCCESS'



Just a Email or Phone call away

Email: Gdalton@aol.com (562) 480 4142