

# DCAA Audits and Allowable Cost

Ted Lieu  
Jessica Solorzano

May 25, 2021

## Overview

# DCAA Audits

- DCAA Audits Today
- How DCAA Audits are Affecting Caltech
- Areas of Most Concern
- A Need to Address Caltech's Charging Practices and Documentation

# DCAA Audits Today

DCAA's audits today have evolved into an enormous, and very time consuming and labor-intensive review of CIT's Policies, Procedures, Processes, and transaction verification of allowability.



## How DCAA Audits are Affecting Caltech

No.	What Changed?	How it Affects CIT?
1	DCAA's agenda is to question the most cost possible any way they can	Increase in questioned costs, results in a lower F&A rate
2	In 2019, only 29% of DCAA's questioned costs nationwide were sustained	DCAA's questioned costs will continue to be questioned until resolved with ONR and proposal(s) are negotiated.
3	Significant increase in number of auditors and time to complete CIT audits	Consumes resources and limits work spent on other tasks
4	DCAA is moving toward 100% transaction testing	Opens the door for more questions and questioned costs

## How DCAA Audits are Affecting Caltech

No.	What Changed?	How it Affects CIT?
5	DCAA wants to gain a full understanding of all Policies, Procedures (from cradle to grave)	Consumes resources to get DCAA up to speed and comfortable
6	For each transaction DCAA will test it against CIT's Policies, Procedures, Processes, and allowability	Consumes resources and may result in questioned costs which will reduce F&A rate.
7	DCAA audits original documents and expects an observation of every transaction and source file	Requires offices to recreate source reports and perform live observations of original documentation

## How DCAA Audits are Affecting Caltech

No.	What Changed?	How it Affects CIT?
8	Errors identified by DCAA require explanation of root cause and corrective action plan	CIT must make relevant effort to take corrective action, if not DCAA will continue to question these types of costs
9	DCAA is looking closer at out of period transactions	Requires CIT to provide explanations and will question costs
10	DCAA will recalculate 100% of transactions tested and all cost treatments	Often requires CIT resources to help them do this
11	Reconcile transactions tested to Financial System, invoice, proof of payment, and request relevant documentation	Consumes CIT resources; to do reconciliations OCS must work with relevant offices when needed

## How DCAA Audits are Affecting Caltech

No.	What Changed?	How it Affects CIT?
12	DCAA is looking at transactions with significant delays in processing	Red flag to auditors that there may be an internal control weakness
13	If it is not clear the cost is allowable, DCAA will ask Caltech for the reason why Caltech believes the cost is allowable. If they do not agree with the reason, they will question the cost.	Requires CIT to provide explanations and defend the allowability of the cost as opposed to addressing DCAA's basis for cost being unallowable
14	The burden of proof of allowability is now on the contractor as opposed to DCAA proving the cost was unallowable.	Makes it more difficult to justify the allowability of costs for inclusion in the F&A Rate

## How DCAA Audits are Affecting Caltech

No.	What Changed?	How it Affects CIT?
15	It is no longer just a financial audit. There is much more scrutiny of internal processes & controls, management practices, policies, working procedures, basis of subjective decisions effecting cost treatment and allocation basis, support documents, and out-of-period transactions.	DCAA is identifying more transactions that were not processed in accordance with Caltech's policies & procedures and questioning the costs
16	During the audit, DCAA will ask Caltech more than 1000 questions, and ask for all supporting documents specified in our policies and procedures for every transaction they are testing	No one person in our office has the knowledge to answer all the questions asked by DCAA



## Areas of Most Concern to Caltech

### High Risk Expenses (are the expenses needed to perform the job?)

- Supplies-Allocable
- Consulting Fees
- Fees
- Memberships, Subscriptions, Licenses, Permits,
- Meetings & Conferences
- Training Classes/ Employee Development
- Travel, Car Rental, Ground Transportation, Rideshare, Caltech Parking Passes

## Areas of Most Concern to Caltech

High Risk Expenses (are the expenses needed to perform the job?)

- Catering Services, Food, Coffee, Tea, Water, Soda, Lunches, etc.
- Software products and tools
- Credit Expenditures
- Internal Charges
- Employee Wellness costs
- P-Card Expenses
- Equipment Disposals

## Other Examples of High-Risk Expenses

High Risk Expenses (are the expenses needed to perform the job?)

- Birthday cakes, cards, celebrations, flowers, gifts
- Retirement celebrations
- Employee Service awards, employee recognition events
- Office Bottled water /Water Dispenser subscriptions
- Annual Association Membership fees
- Magazine or Journal Subscriptions
- Cable TV subscriptions
- Residential pool care costs

# Support Documentation

---

Here are some of the documents DCAA is requesting during the transaction testing part of the audit field work:

1. Purchase Requisition (or equivalent approval document)
2. Request for Bid, Sole-Source Justification, Price Justification
3. Purchase Order and/or Purchase Contract
4. Proof of Receipt of Items Purchased
5. Invoice
6. Proof of Payment (e.g., copy of check payment)
7. P-Card Authorization Approval Forms

Note: DCAA may request other documents depending on the transaction and how it is processed.

# Key Point

---

- I. Adequate information to support the allowability of costs in the transaction details are usually lacking.
  1. Nature of the cost (specifically what product or service was purchased)
  2. Business purpose
  3. How the cost benefits the business purpose
  4. How the cost is allowable per 2 CFR 200
- ❖ DCAA will request this information if it is absent in the transaction details
- ❖ If Caltech is unable to provide this information, they will question the cost

## Next Steps

- ❖ More campus-wide training on cost allowability and charging expenses may be needed
- ❖ More discussions on this topic are needed as this affects the entire Campus
- ❖ Changes are needed to better support DCAA audits in order to reduce questioned costs
- ❖ It is not clear what changes are needed at CIT to accommodate the way the government is now performing audits
- ❖ More to come on this....