DCAA Audits and Allowable Cost

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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’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

<table>
<thead>
<tr>
<th>No.</th>
<th>What Changed?</th>
<th>How it Affects CIT?</th>
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<tbody>
<tr>
<td>1</td>
<td>DCAA’s agenda is to question the most cost possible any way they can</td>
<td>Increase in questioned costs, results in a lower F&amp;A rate</td>
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<tr>
<td>2</td>
<td>In 2019, only 29% of DCAA’s questioned costs nationwide were sustained</td>
<td>DCAA’s questioned costs will continue to be questioned until resolved with ONR and proposal(s) are negotiated.</td>
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<td>3</td>
<td>Significant increase in number of auditors and time to complete CIT audits</td>
<td>Consumes resources and limits work spent on other tasks</td>
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<td>4</td>
<td>DCAA is moving toward 100% transaction testing</td>
<td>Opens the door for more questions and questioned costs</td>
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<td>DCAA wants to gain a full understanding of all Polices, Procedures (from cradle to grave)</td>
<td>Consumes resources to get DCAA up to speed and comfortable</td>
</tr>
<tr>
<td>6</td>
<td>For each transaction DCAA will test it against CIT’s Policies, Procedures, Processes, and allowability</td>
<td>Consumes resources and may result in questioned costs which will reduce F&amp;A rate.</td>
</tr>
<tr>
<td>7</td>
<td>DCAA audits original documents and expects an observation of every transaction and source file</td>
<td>Requires offices to recreate source reports and perform live observations of original documentation</td>
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<td>Errors identified by DCAA require explanation of root cause and corrective action plan</td>
<td>CIT must make relevant effort to take corrective action, if not DCAA will continue to question these types of costs</td>
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<td>9</td>
<td>DCAA is looking closer at out of period transactions</td>
<td>Requires CIT to provide explanations and will question costs</td>
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<tr>
<td>10</td>
<td>DCAA will recalculate 100% of transactions tested and all cost treatments</td>
<td>Often requires CIT resources to help them do this</td>
</tr>
<tr>
<td>11</td>
<td>Reconcile transactions tested to Financial System, invoice, proof of payment, and request relevant documentation</td>
<td>Consumes CIT resources; to do reconciliations OCS must work with relevant offices when needed</td>
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<td>DCAA is looking at transactions with significant delays in processing</td>
<td>Red flag to auditors that there may be an internal control weakness</td>
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<td>13</td>
<td>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.</td>
<td>Requires CIT to provide explanations and defend the allowability of the cost as opposed to addressing DCAA’s basis for cost being unallowable</td>
</tr>
<tr>
<td>14</td>
<td>The burden of proof of allowability is now on the contractor as opposed to DCAA proving the cost was unallowable.</td>
<td>Makes it more difficult to justify the allowability of costs for inclusion in the F&amp;A Rate</td>
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<td>It is no longer just a financial audit. There is much more scrutiny of internal processes &amp; controls, management practices, policies, working procedures, basis of subjective decisions effecting cost treatment and allocation basis, support documents, and out-of-period transactions.</td>
<td>DCAA is identifying more transactions that were not processed in accordance with Caltech’s policies &amp; procedures and questioning the costs</td>
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<td>16</td>
<td>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</td>
<td>No one person in our office has the knowledge to answer all the questions asked by DCAA</td>
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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.
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
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....