



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

SEP 14 2006

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT MANAGEMENT
AGENCY
COMMANDER, SANTA ANA DISTRICT BRANCH
DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT Review of Contracting Official Corrective Actions at the Defense Contract
Management Agency, Santa Ana District Branch
(Project Number D2005-DIPOAC-229.000)

Our office performed a follow-up review of the corrective action taken by the Defense Contract Management Agency Santa Ana District Branch office in response to the Department of Defense Inspector General's March 17, 2005 Contract Audit Follow-up Report Number D2005-6-003. Specifically, we addressed the effectiveness of the corrective actions taken by DCMA Santa Ana District Branch office to eliminate the cited deficiencies. The deficiencies noted in the report are as follows:

- Timely resolution and disposition of audit reports
- Collection of penalties and interest on expressly unallowable costs
- Accuracy of data provided semiannually to the Inspector General; and
- Performance standards and evaluations.

As a result of our follow-up review, we have determined that the corrective actions taken by the DCMA Santa Ana District Branch to our findings are generally effective. We provide in the Attachment 1 to this memorandum, the originally reported recommendation, the proposed corrective action and the verification of the corrective action.

We appreciate the courtesies extended to our audit staff. For additional information relating to this memorandum, please contact Ms Meredith Long-Morin at (703) 604-8739 (DSN 664-8739) or Mrs. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877). See Attachment 2 for the memorandum distribution.

A handwritten signature in black ink, appearing to read "Patricia A. Brannin".

Patricia A. Brannin
Assistant Inspector General
for Audit Policy and Oversight

Attachments:
As stated

STATEMENT OF RECOMMENDATIONS, PROPOSED CORRECTIVE ACTION AND RESULTS OF FOLLOW-UP

1. Timely Resolution and Disposition of Audit Reports

a. Recommendation

We recommend that the Commander, DCMA District Office, Santa Ana, California, instruct administrative contracting officers and their staff to comply with DoD Directive 7640.2, (Policy for Follow-up on Contract Audit Reports, dated February 12, 1988), by ensuring contract audit reports are resolved and dispositioned within the timeframes specified.

b. Proposed Corrective Action

The Commander DCMA Santa Ana District Branch concurred and stated that more emphasis and oversight would continue to be stressed for all Santa Ana acquisition personnel. The commander also stated that a training session on the Contract Audit Follow-up process would be provided to all administrative contracting officers by June 30, 2005.

c. Review of Corrective Action

To evaluate the effectiveness of the corrective action, we verified that the proposed training was provided to the administrative contracting officers. We reviewed the actual resolution and disposition document dates and verified that the contracting officer file was adequately documented for those circumstances exceeding the 12-month date of disposition.

Based on our review, we determined that generally, audit reports at DCMA Santa Ana District Branch are resolved and dispositioned in a timely manner and in accordance with DOD Directive 7640.2. A written explanation is included in the contracting officer's file for those reports not closed within the 12-month disposition period.

2. Penalties and Interest on Expressly Unallowable Costs

a. Recommendation:

We recommend that the Commander, DCMA District Office, Santa Ana, California, instruct administrative contracting officers and staff to:

1. Comply with 10 U.S.C. 2324(b) by assessing penalties on expressly unallowable costs.
2. Require contractors to support their cost submissions or apply penalties to costs the auditor questioned as expressly unallowable.

b. Proposed Corrective Action

The Commander DCMA Santa Ana District Branch office concurs. The current standard operating procedure will be changed to reflect that administrative contracting officers will obtain an Internal Review and Advisory Council recommendation on any proposed action involving penalties and interest, and on actions wherein the administrative contracting officer has not agreed with the penalty assessment either wholly or in part. In addition, all administrative contracting officers will receive training on the penalty and interest requirements by June 30, 2005.

c. Review of Corrective Action

We verified that the proposed corrective action was implemented. DCMA Santa Ana District Branch provided training to the administrative contracting officers on May 10, 2005, and amended the standard operating procedure number 01-05-006 Contract Audit Follow-up (CAFU) to include action taken by contracting officers on penalty and interest.

In order to evaluate the effectiveness of the corrective action, we judgmentally selected audit reports and compared the DCAA's penalty recommendation to the administrative contracting officer's penalty assessment. We reviewed those instances when there were differences between the DCAA recommendation and the administrative contracting officer's assessment.

Based on our analysis of the recommended penalty, we determined that the contracting officers appropriately assessed penalties when DCAA considered the costs to be expressly unallowable, or provided a written justification of their actions when disagreeing with the DCAA recommendation.

3. Accuracy of the Contract Audit Follow-up (CAFU) Semiannual Data

a. Recommendation:

We recommend the Commander, DCMA District Office, Santa Ana, California, instruct administrative contracting officers and their staff to:

1. Document the calculation for the amount reported in the CAFU system and the reasons for the amount reported.
2. Obtain Web-Based training from the DCMA Headquarters on the CAFU E-Tools system and verify and correct data when warranted.

b. Proposed Corrective Action

The Commander DCMA Santa Ana District Branch concurs and will amend their standard operating procedure. The newly amended standard operating procedure will include a requirement for administrative contracting officers to review and compare the questioned costs in both the audit report and the e-Tools reporting system to make specific comments regarding the accuracy of these costs in their file documentation. Where discrepancies arise, administrative contracting officers will be encouraged to communicate with DCAA to clarify the amounts. In accordance with DCMA protocol, DCMA Santa Ana District Branch has requested training from the Western District Process Manager and anticipates completion by June 30, 2005.

c. Review of Corrective Action

We verified that the proposed corrective action was implemented. The training related to the accuracy of the data provided in e-Tools and accessible to the Inspector General was held on May 10, 2005. We verified that the standard operating procedure for Santa Ana was amended to include a requirement for contracting officers to review and compare questioned costs in both the audit report and the e-Tools reporting system and to make specific comments regarding the accuracy of these costs in their file documentation.

We verified the corrective action and compared selected items on the Contract Follow-up e-Tools report to the actual DCAA audit reports as well as the resolution and disposition memorandum documents contained in the contracting officers' files.

We determined that generally data included in the automated Contract Audit Follow-up e-Tools system for the DCMA Santa Ana District Branch location was accurately reported.

4. Performance Standards and Evaluations

a. Recommendation:

We recommend the DCMA Santa Ana, District Office, Santa Ana, California, ensure the CAFU requirements are included in all appropriate acquisition officials performance standards and evaluations to remind them of the resolution and disposition requirements and to recognize those individuals that are effective in timely resolving and dispositioning audit findings and recommendations.

b. Proposed Corrective Action

The Commander DCMA Santa Ana District Branch concurs. The standard operating procedure for Contract Audit Follow-up has a requirement that contracting officers' contract audit follow-up performance is included in their respective position descriptions and that performance ratings must reflect the contracting officers' effectiveness in resolving and dispositioning contract audit findings and recommendations. The requirements for contract audit follow-up were added to the first line supervisor evaluations and placed in each manager's 2005 Performance Plan.

c. Review and Verification of Corrective Action

We reviewed the evaluations and performance plans of several contracting officials in order to verify that the contract audit follow-up requirements are included and are used as evaluation factors.

Our review disclosed that the contract audit follow-up process is a rating factor used by DCMA Santa Ana District Branch in the performance appraisals of the contracting officials.

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