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CLE 11* / CPE 13**

Government Contract Audits: Dealing with Auditors and Mitigating Audit Risk

1. Preparing for audits and effectively interfacing with auditors before, during and upon conclusion of audits
2. Understanding contractor and government rights within the audit process
3. Dealing with specific types of audits and the more frequent issues within incurred cost proposals, bid proposals, billing rates, cost accounting systems, internal controls, defective pricing, costs, and Cost Accounting Standards, etc.
4. Being prepared to address potential audit challenges of issues such as travel costs; professional and consulting fees, advertising and selling costs; intercompany transfers; access to records and to employees; DCAA billing cost suspensions, and; reasonableness and allocability
5. Resolving audit disputes through pro-active interface with auditors, audit managers, contracting officers, and other Government authorities
6. Evaluating audit challenges and preparing effective responses to audit issues
7. DCAA audit standards, methods, tools, and procedures for conducting audits
8. Understanding DCAA's role of investigative support and in identifying and reporting suspected irregularities.
9. Understanding oversight techniques and circumstances which elevate audit risk in order to mitigate risk of audit findings
10. The procurement culture driving audit oversight, and DCAA/DCMA organizational structure, charter, and fundamental audit objectives
11. Following current procurement trends and their impact on DCAA areas of emphasis, and how contractors should prepare for the audits and FAR to prove your point; effective use of case law in the audit environment

June 10-11, 2009 • Las Vegas, NV

September 15-16, 2009 • Washington, DC

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Government Contract Audits: Dealing with Auditors and Mitigating Audit Risk

Depending on the types of contracts you have, you can face a vast amount of audit oversight. It can translate into disallowed costs, penalties, fines, and loss of credibility with government customers. Understanding the regulatory government audit mindset and how to prepare for a broad range of audits will place you a step ahead in mitigating the risk of adverse audit problems.

To reduce and avoid audit problems, contractors must understand the audit objectives, techniques, specific areas of audit emphasis, and the options for analyzing and effectively responding to audit findings. Employing best practices in dealing with auditors on a regular basis and formulating an effective chain of communication during the course of various audits, will often achieve this objective. But, mitigating the risk of audit problems and successfully resolving audit problems also requires a thorough understanding of certain audits that most frequently raise adverse issues, as well as a contractor's responsibilities and rights for effectively addressing questioned costs or challenges to internal controls that result from audits. Government contractors must also be vigilant and diligent in understanding the sequence of steps and levels of government procurement authorities in resolving audit disputes. Understanding how to prepare for audits; the audit objectives and procedures employed by auditors; how to interact with auditors; and effective methods for deterring and addressing audit issues will mitigate the risk of cost disallowances, loss of contract opportunities, and an image of tainted credibility with the government.

To meet the objectives of the course, we have assembled a distinguished, experienced Course Faculty. They are instructors who have an extensive background in understanding Government audits and in how to overcome potential audit problems. The professionals leading this course have experience both as DCAA auditors and as consultants to government contractors and have an understanding of both the audit perspective and the government contractor perspective. They work in a consulting profession where they are continuously assisting government contractors in understanding and resolving audit issues.

We look forward to your participation.

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Call Mike Joseph at 651-848-8655**

Course Faculty

Michael E. Steen, Certified Public Accountant, is a Senior Managing Consultant in Beason & Nalley's Government Contract Consulting Group. Prior to joining Beason & Nalley in 2007, Mr. Steen was employed with DCAA as a senior executive. Mr. Steen was responsible for the management of audits of approximately \$25B annually and management of agency resources approximating 800 employees. He was also involved in conducting or managing a variety of compliance audits, to include cost proposals, internal controls and related systems, Cost Accounting Standards, claims, defective pricing, and special programs. He was also actively involved in contract disputes and litigation, and has prepared and presented various lectures and seminars to DCAA staff and business community leaders. Mr. Steen also served as a member of the Executive Steering Committee for DCAA during his tenure as a Regional Director.

Darryl Walker, Owner, Beason & Nalley, Inc., specializes in providing government contract consulting services. He has written several articles for publication, provides training courses to government contractor and business community leaders, and consults with government contractors regarding a vast range of issues including cost proposal and presentations, compliance with FAR and Cost Accounting Standards, litigation consulting, specialized claims, liaison with procurement and DCAA audit officials, and accounting and management systems compliance. His years of experience in dealing with government contractors has enabled him to teach with a high degree of technical competence.

During his tenure with DCAA, Mr. Walker provided audit services to a wide range of government agencies, including the Department of Defense, NASA, Department of Energy, Department of Interior, General Services Administration, and Department of Justice. He audited over 3,000 government contractors throughout the Southeastern United States, Europe, and the Middle East, including airframe manufacturing, industrial construction, engineering and technical services, and specialized research and development companies. His DCAA auditing experience included providing services ranging from evaluations of cost presentations claims, audits for compliance with Cost Accounting Standards (CAS), negotiation support to Government agencies, and participation in internal management reviews.

Government Contract Audits Course Curriculum

1. Government Audit Background Information

- a. Regulatory Environment
- b. Government Audit Philosophy
- c. Audit Oversight Charter
- d. Business Environment Elevating Level of Audit Oversight
- e. Overview of Agencies in Audit Oversight Process

2. Defense Contract Audit Agency (DCAA)

- a. Purpose and Role in Procurement Process
- b. Organization and Structure
 - 1. Headquarters
 - 2. Regional Offices
 - 3. Field Offices
- c. CAC Networks (Contract Audit Coordination)
- d. Relationship with Procurement and Other Oversight Agencies
 - 1. Procurement Commands
 - 2. GAO (Government Accountability Office)
 - 3. DCMA (Defense Contract Management Agency)
 - 4. DOD IG (Department of Defense Inspector General)
 - 5. DOJ (Department of Justice)
 - 6. Investigative Agencies
- e. Authority and Responsibilities
 - 1. Audit Concepts and Principal Duties
 - 2. Audit Objectives
 - 3. Auditing Standards
- f. Relationship With Regulatory Agencies
 - 1. Cost Accounting Standards (CAS) Board
 - 2. Federal Acquisition Regulations (FAR) Council
 - 3. DPAP and SS (Defense Procurement Acquisition Policy and Strategic Sourcing)
- g. Internal Operations
 - 1. Headquarters
 - 2. Regional offices
 - 3. Resident and branch offices
 - 4. Professional staff
 - 5. Audit statistics
 - 6. Reports and surveys
- h. Audit Guidance and the DCAA Internet Website
 - 1. Contract audit manual (CAM)
 - 2. Open Audit Guidance & public access
 - 3. Directives and working papers
 - 4. Special or specific audit guidance
 - 5. External materials

3. Dealing with Auditors and Improving Working Relationships

- a. General working relationships
 - 1. Recognizing audit goals and assignment challenges
 - 2. Contractor team assignments
 - 3. Anticipating and correcting problems
 - 4. Establishing communication process
 - 5. Responding to audit requests and final results
- b. Preparing for audit
 - 1. Notification of audit
 - 2. Anticipating audit procedures and data required
 - 3. Setting up interface channels
 - 4. Preparing for entrance conference
- c. Interface during audits
 - 1. Communication best practices
 - 2. Responding to audit requests for data and information

- 3. Informal versus formal working arrangements
- 4. Responding to audit report informally and formally
- 5. Resolving problems during audit
- 6. Exit meeting
- d. Avoiding audit disputes
 - 1. Understanding basis for findings
 - 2. Reviewing draft audit report
 - 3. Resolution through appropriate audit channels
 - 4. Involving senior audit management
 - 5. Analysis of data reviewed and procedures employed
 - 6. Presentation of additional facts
 - 7. Corrective action strategies
- e. Resolving unique audit issues and problems
 - 1. Adverse audit behavior
 - 2. Sufficiency of audit procedures & data reviewed
 - 3. Audit avoidance/ignoring of all relevant facts
 - 4. Materiality issues

4. Cost accounting System Basics-Understanding Audit Focus

- a. Tracking costs by contract
- b. Direct and indirect cost identification
- c. Recording unallowable costs
- d. Timekeeping and labor distribution
- e. Subsidiary accounting functions
- f. Audits that focus on cost accounting regulations

5. Specific Audits: Preparing for and Responding to Audit Issues

- a. General concepts covered for each audit
 - 1. Understanding specific audit procedures & objectives
 - 2. Mitigating risk through preparation and knowledge
 - 3. Minimizing audit disputes
 - 4. Evaluating and challenging audit issues & positions
 - 5. Specific response methods to audit deficiencies
 - 6. Contractor rights in audit process and responding
 - 7. Impact of current audit trends & procurement events
- b. Specific audits
 - 1. Pre-award or Post-award Accounting System Reviews
 - 2. Forward Pricing Bid Proposals
 - 3. Provisional Billing Rates
 - 4. Internal Controls (Audit "ICAPS" Program)
 - i. Overall accounting control environment and business ethics
 - ii. Billing system
 - iii. Estimating system
 - iv. Compensation system
 - v. Purchasing system
 - vi. Impact of current audit trends on DCAA procedures
 - 5. Cost Accounting Standards
 - i. General compliance
 - ii. Disclosure Statements
 - iii. Cost impact statements
 - 6. Incurred Costs
 - i. Proposal presentation and timely submission problems
 - ii. Audit basis for questioned costs
 - iii. Materiality

- iv. Penalties on unallowable costs
- 7. Defective Pricing

6. Unique Cost and Other Audit Issues--Current Audit Initiatives

- a. Labor costs
 - 1. Timekeeping issues
 - 2. Uncompensated overtime considerations
 - 3. Purchased or contracted labor & allocations
- b. Accounting for unallowable costs
 - 1. Myopic audit views
 - 2. Directly associated unallowable costs
 - 3. Statistical sampling techniques
 - 4. Audit positions on calculating penalties
- c. Allocability
 - 1. Audit judgment in viewing allocability
 - 2. Allocation bases for indirect expenses
 - 3. Concepts of "benefits" entire organization
- d. Reasonableness concepts
 - 1. Audit perspective
 - 2. Recognizing judgment factors
 - 3. Responding to "reasonableness" challenges
 - 4. Incurred costs most subject to audit reasonableness challenges
- e. Contractor documentation and access to records
 - 1. Case law governing certain data
 - 2. Government & contractor rights
 - 3. Regulations requiring written policies and procedures
- f. Professional and consulting fees
- g. Public relations, advertising, and marketing costs
- h. Business meetings and conference expenses
- i. Travel costs
- j. Compensation Cost Reasonableness and Statutory Limits
- k. Intercompany transfers
- l. DCAA Form 1 Cost Suspension or Disallowance
- m. Estoppel rule
- n. Credits and refunds

7. Effects of Current Procurement and Audit Events

- a. FAR Part 3 rule changes-business ethics, internal controls, and disclosure
- b. GAO July 2008 audit report on DCAA
- c. DOD rule on pass-through costs on subcontracts
- d. New rule on Time & Material/Labor hour contracts
- e. Significant DCAA guidance and trends

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