March 17, 2005

Contract Audit Followup

Defense Contract Management Agency Santa Ana Office's Actions on Incurred Cost Audits

(D-2005-6-003)

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March 17, 2005

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

SUBJECT: Defense Contract Management Agency Santa Ana Office's Actions on Incurred Cost Audits (Report No. D-2005-6-003)

We are providing this report for your information and use. This is the first in a series of reports on Defense Contract Management Agency (DCMA) offices and their actions on the resolution and disposition of Defense Contract Audit Agency (DCAA) incurred cost contract audit reports.

Background. This report addresses the DCMA Santa Ana District Office. DoD Directive 7640.2, "Policy for Follow-up on Contract Audit Reports," February 12, 1988, as amended August 16, 1995, implements OMB Circular A-50, "Audit Followup" and prescribes DoD policies and procedures, including timeframes, for the resolution and disposition of contract audit reports. Incurred cost contract audit reports showing $100,000 in cost questioned are required by the directive to be reported and tracked to achieve timely resolution and disposition. Resolution is achieved when the auditor and the contracting officer agree on the actions to be taken on audit report findings or when the contracting officer determines a course of action. Contract audit reports should be resolved within 6 months of issuance and dispositioned, or closed, as soon as possible thereafter. Disposition of the contract audit report occurs when the contractor implements the audit recommendations or the contracting officer's decision, a settlement is reached, or the contracting officer issues a final decision under the Disputes Clause and 90 days elapse without contractor appeal to the ASBCA. Audit reports are overage if not dispositioned within 12 months of issuance. Deviations from the established time periods should be fully justified and documented in the contract file.

Objective. We evaluated the actions taken by DCMA Santa Ana District Office on DCAA incurred cost contract audit reports with more than $100,000 in costs questioned.

Review Results. Administrative contracting officers at DCMA Santa Ana need to achieve timelier resolution and disposition of audit reports, address and collect penalties and interest on expressly unallowable costs, ensure accurate amounts are being reported to DCMA headquarters, and include Contract Audit Followup in performance standards and rating evaluations.

Management Comments and Reviewer Response. Management concurred with the recommendations. Comments from the Commander, DCMA Santa Ana were responsive; therefore, no additional comments are required. Management Comments are discussed at the end of each recommendation and are included in their entirely at the end of this report.

Finding A. Timely Resolution and Disposition of Audit Reports. Contracting officers at the DCMA Santa Ana District office were not always resolving contract audit reports within the required six-month period or dispositioning reports within 12 months as specified in DoD Directive 7640.2.

Resolution. Of 13 reports we reviewed, five exceeded the six-month requirement with the longest time to resolution being 11 months. The resolution of an audit report demonstrates that the ACO understands the issues in the report and has determined and documented a course of action in accordance with the DoD Component's prenegotiation documentation and review procedures. Appendix B illustrates the timeliness of resolution and disposition by the contracting officials at DCMA Santa Ana.

Disposition. Contracting Officials had not dispositioned 6 of the 13 reports within the required 12 months of report issuance or settlement of a qui tam at the time of our visit in March 2004. Disposition of the contract audit report occurs when the contractor implements the audit recommendations or the contracting officer's decision, a settlement is reached, or the contracting officer issues a final decision under the Disputes Clause and 90 days elapse without contractor appeal to the ASBCA. Although a qui tam effected the settlement of 8 reports, all except one was dispositioned within 12 months after the qui tam was settled. This one report still remains open 15 months after the qui tam settlement date of June 2003.

Two of the 6 reports were subsequently closed in September 2004. The 4 reports still open with cost question of $37 million, on average exceeded the 12-month requirement for dispositioning the reports by over 15 months. These 4 reports also contain $2.3 million in expressly unallowable costs. Timely resolution and disposition ensures the Government recoups unallowable costs including penalties and interest.

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 by ensuring contract audit reports are resolved and dispositioned within the timeframes specified.

Management Comments. The Commander, DCMA Santa Ana concurred and stated that the CAFU process, addressed within Santa Ana's Standard Operation Procedure contains the resolution and disposition guidance. The CAFU process has been stressed at periodic meetings with contracting officers and more emphasis and oversight will continue to be stressed for all DCMA Santa Ana acquisition personnel. In addition, a training session on the CAFU process will be provided to all ACO's by June 30, 2005.

Finding B. Collecting Penalties and Interest on Expressly Unallowable Costs. In dispositioning two of four reports, contracting officials did not always assess or address penalties and interest. The result is that penalties and interest on about $192 thousand was not recouped.

DCAA report 4791-1999C10100373. The price negotiation memorandum (PNM) dispositioning DCAA report 4791-1999C10100373 incorrectly cited the DFARS as the reason penalties and interest was not assessed on transportation costs questioned and sustained of $25,365. The PNM dated 30 September 2003, Note c. (1) stated:

> DCMA does not agree with DCAA's penalty assessment recommendation. According to the provision of DFARS 231.7002-

> 3(b), the ACO shall assess penalty when the submitted costs was determined to be unallowable for the contractor prior to the submission of the proposal, evidenced by a contracting officer final decision which was not appealed. Therefore, no penalty should be imposed because the Divisional Administrative Contracting Officer (DACO) determination that similar costs are unallowable was made after these costs were already claimed by the contractor and reviewed by DCAA.

The PNM statement applies to a Level 2 penalty which is double the amount claimed because it was determined to be unallowable before the submission. In this instance, a Level 1 penalty should have been applied and a penalty equal to the amount claimed of $25,365 should have been assessed. The contracting official misunderstood the regulation and thus failed to recoup the penalty and interest.

Additional statements in the PNM raised our concerns about the lack of contractor supporting records being used as a basis for not applying penalties. In this instance, the contracting official disallowed part of the claimed costs that was inadequately supported but stated that the penalty assessment was inappropriate since without the support they were unable to determine that the costs in question were expressly unallowable. FAR 31-201-2(d), states the contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with the applicable cost principles in this subpart and agency supplements. The contracting official's logic in the PNM is flawed. The contracting official's logic would allow a contractor to avoid penalties by not providing support if they know the costs are expressly unallowable. The lack of support for an item that is potentially expressly unallowable should have the penalty applied unless the support is provided to show the costs are not expressly unallowable.

In addition, the contracting official did not assess penalties and interest on advertising costs of $10,803 that were questioned by the DCAA as expressly unallowable and indicated in the negotiation memorandum that the contractor concurred. The contracting official did not address why penalties and interest were not applied. The statutes and the regulations are specific on the requirement to apply penalties, however, none were applied.

DCAA Report 4791-1999B101100340. Although $155,990 in Exhibition Costs was questioned in the report as expressly unallowable and sustained by the contracting official, no penalties and interest were applied and the PNM did not address why no penalties and interest were applied.

10 U.S.C. 2324(b), stipulates that a penalty shall be assessed if a contractor submits costs that are expressly unallowable according to the FAR in a proposal for settlement of indirect costs. The penalty shall be equal to the amount disallowed and allocated to contracts covered by the provision, including interest. The contracting officer may apply double penalties if a contractor submits the same type of unallowable costs in subsequent overhead claims. The head of an agency may issue a waiver from penalties if one of three conditions exists:

1. The contractor withdraws the proposal before the formal initiation of an audit and resubmits a new proposal;
2. The contractor demonstrates, to the satisfaction of the ACO, that it has established appropriate policies that preclude unallowable costs subject to penalties from being included in indirect cost proposals; or
3. The ACO is satisfied that the unallowable costs subject to penalties were inadvertently incorporated into the proposal.

The FAR Subpart 42.7, "Indirect Cost Rates," implements 10 U.S.C. 2324(a) through (d) and covers the assessment of penalties against contractors that include unallowable costs in final indirect cost rate proposals. If unallowable costs exceed $10,000, the cognizant contracting officer shall issue a final decision, including a demand for payment of any penalty assessed unless a waiver is obtained in accordance with the regulations.

In the cases discussed, the contracting officials failed to follow the statutes and assess or address penalties.

Recommendation. We recommend that the Commander, DCMA District Office, Santa Ana, California, instruct administrative contracting officers and their 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.**

Management Comments. The Commander, DCMA Santa Ana concurred and stated that Santa Ana will continue to stress to contracting officers to make a determination on penalties within the resolution timeframe and document their decisions. The current Standard Operation Procedure will be changed by March 30, 2005 to reflect that ACO's will obtain an Internal Review and Advisory Council recommendation on any proposed action involving penalties/interest, and in addition, actions wherein the ACO has not agreed with the penalty assessment either wholly or in part. In addition, all ACO's will receive training on the penalty/interest requirements by June 30, 2005.

Finding C. Accuracy of Data. The DCMA semiannual report for the period ending September 30, 2003 contained incorrect cost questioned amounts for nine of the 13 incurred costs audit we reviewed. This occurred because the ACO's were not comparing the amounts in the DCAA audit reports with the amounts stated in the DCMA submission. The costs questioned amount reported should be the total amount questioned in the audit report, regardless of contract mix or percentage of commercial business that the reporting contracting official has responsibility and authority to disposition. There was no documentation showing how the reported amount was determined and why the differences.

DCAA audit reports generally contain an exhibit that shows the total costs questioned. DCAA also provides contracting officials with a monthly electronic transmission of reports issued during the month that includes the amount of costs questioned for each report.

Although DCAA provides the information, the contracting official is responsible for determining the amount that is reported in the CAFU system and making changes in the E-Tools system. The contracting officers responsible for incurred costs audits had not received adequate training on the E-Tools and were not notifying District officials when amounts were inaccurate.

Appendix C shows the differences by audit report.

Recommendation. We recommend that 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 DCMA Headquarters on the CAFU E-Tools system and verify and correct data when warranted.

Management Comments. The Commander, DCMA concurred and stated that Santa Ana will amend their Standard Operation Procedure by March 30, 2005 and 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 comment (s) regarding the accuracy of these costs in their file documentation. Where discrepancies arise, ACO's will be encouraged to communicate with DCAA to clarify the amounts. In addition, in accordance with DCMA protocol, Santa Ana has requested training from the Western District Process Manager and anticipates completion by June 30, 2005.

Finding D. Performance Standards and Evaluations. Of four Administrative Contracting Officers reviewed, only one had comments addressing the Contract Audit Followup function in their standards and performance rating. DoD Directive 7640.2 specifies under section 5.2.4 that the Secretaries of the Military Departments and the Directors or the Defense Agencies shall "Ensure that performance appraisals of appropriate acquisition officials reflect their effectiveness in resolving and dispositioning audit findings and recommendations in a timely manner, while fully protecting the Government's interest."

The CAFU requirements specified in the directive need to be included in all appropriate acquisition officials performance standards and evaluations to remind everyone responsible of the DoD Directive requirements and to recognize those individuals that are effective in timely resolving and dispositioning audit findings and recommendations.

Recommendation. We recommend that the Commander, DCMA District Office, Santa Ana, California, ensure the CAFU requirement 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.

Management Comments. The Commander, Santa Ana concurred and stated that the Standard Operation Procedure (SOP) on CAFU has a requirement for ACOs/DACOs, Contract Audit Follow-Up Monitors, Team Leaders, and Commander/Chiefs to have CAFU performance included in their respective position descriptions and treated as a critical element. In addition, the SOP states that performance ratings must reflect their effectiveness in resolving and dipositioning contract audit findings and recommendations. Flow down requirements for CAFU were added to the First Line Supervisor Evaluations and placed in each manager's Calendar Year 2005 Performance Plan. First Line Supervisors were directed to include the CAFU requirement as part of the ACO Performance Plans by January 30, 2005 for this year.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Wayne Berry at (703) 604-8789 (DSN 664-8789). See Appendix D for the report distribution.

Patricia A. Brannin
Assistant Inspector General
Audit Policy and Oversight

Appendix A. Scope and Methodology

We evaluated the accuracy of the data in the DCMA semiannual reports prepared to comply with the DoD Directive 7640.2 and reviewed DCMA policies and procedures that implement the Directive. We judgmentally selected the DCMA Santa Ana office because there were a significant number of open assignments that appeared to exceed the 12 month requirement and there were closed assignments that noted the possibility of penalty recommendations. We interviewed DCMA Headquarters personnel and contract management officials and contracting officials at the District office in Santa Ana, California. At the Santa Ana location we:

- determined whether audit reports were resolved and dispositioned in a timely manner by reviewing their chronology of events and ascertaining whether the resolution and disposition dates fell within the prescribed guidelines—6 months for resolution and 12 months for disposition. We identified the reasons for any delays and determined whether the delays were justified. For open reports, we evaluated the written plan of action to determine if it was reasonable.

- evaluated the settlement of each closed reportable audit by examining whether settlement documentation was generally prepared in accordance with regulations and whether contracting officials addressed all significant audit recommendations, provided a rationale for not sustaining any costs questioned, and collected applicable penalties. We looked for management oversight through review boards or other means.

We performed this review from March 2004 through December 2004.

Use of Computer-Processed Data. DCMA maintains a web-based E-Tool system for contract followup information, which we relied on. We also relied on computer-based data from the DCAA Management Information System to identify reportable audits sent to DCMA for resolution and disposition. Although we did not perform a formal reliability assessment of the computer-processed data from either system, we did determine that the assignment numbers, costs questioned, and other relevant data for the selected audit reports generally agreed with the computer-processed data. We did not find errors that would preclude the use of the data to meet the audit objectives or that would change our report conclusions.

Prior Coverage. During the last 5 years, the Inspector General of the Department of Defense (IG DoD) has issued 4 reports related to the Contract Audit Followup process.

IG DoD Report No. D2004-6-006, "Oversight Review of the Naval Sea Systems Command Contract Audit Followup Process," July 8, 2004

IG DoD Report No. D-2002-6-009, "The Army Contract Audit Followup Process," September 18, 2002

IG DoD Report No. 00-003, "The Air Force Contract Audit Followup System," October 4, 1999

IG DoD Report No. 99-057, "Settlement of Contractor Incurred Indirect Cost Audits," December 21, 1998

IG DoD Report No. 99-048, "Dispositioned Defective Pricing Reports at the Naval Air Systems Command," December 8, 1998

Appendix B. Timeliness of Resolution and Disposition

Report Number/ Report Date	Exceeds Resolution 6 Month Requirement By	Exceeds Disposition 12-Month Requirement By	DCAA Report Questioned Costs	DCAA Report Expressly Unallowable Costs
Open Reports				
4511-1999D10100200 6/28/2001	1 ½ months	27 months*	$7,155,071	$281,135
4511-2000D10100300 6/28/2002	2	15*	$6,924,838	$1,151,769
4511-2000B10100400 3/28/2002	5	18*	$107,250	$107,250
4181-1998X10100107 6/27/2002		Closed 9/20/04 15	$5,680,974	$3,483,731
4181-1999X10100002 7/8/2002		Closed 9/2004 14 *	$5,143,569	$4,136,536
4791-2000C10100375 8/20/2002	3	3 months* Qui Tam**	$22,557,243	$770,438
4791-2000B10100004 4/2/2002		**	$113,046	$109,903
4791-2000C10100373 8/20/2002	4	**	$726,364	$533,794
4791-2000B10100001 4/2/2002		**	$5,540,697	$827,624
Closed Reports				
4791-1999C10100375 6/22/2001		**	$814,505	$312,780
4791-199C10100373 6/38/2001		**	$546,900	$185,682
4791-1999B10100342 2/22/2001		**	$877,592	$10,000
4791-1999B10100340 3/9/2001		**	$5,547,913	$719,426

* Open at date of field visit in March 2004, however, adjusted based on the latest semiannual.

** Calculated 12 Months from date of Qui Tam settlement, June 2003.

Appendix C. Accuracy of Reported Cost Question

Report Number	Questioned Cost – DCAA Report	Questioned Cost – DCMA Submission
4511-1999D10100200	$5,862,583	$7,155,071
4511-2000D10100300	6,924,838	6,924,800
4511-2000B10100400	107,250	107,250
4181-1998X10100107	5,680,974	5,974,983
4181-1999X10100002	5,143,569	5,143,569
4791-2000C10100375	22,557,243	3,700,635
4791-2000B10100004	113,046	109,903
4791-2000C10100373	726,364	726,364
4791-2000B10100001	5,540,697	5,350,884
4791-1999C10100375*	814,505	1,720,641
4791-1999C10100373*	546,900	546,900
4791-1999B10100342*	877,592	877,592
4791-1999B10100340*	5,547,913	4,696,383

* Closed Reports

Appendix D. Report Distribution

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Defense Contract Management Agency Comments

DEFENSE CONTRACT MANAGEMENT AGENCY
DEFENSE CONTRACT MANAGEMENT AGENCY, SANTA ANA
34 CIVIC CENTER PLAZA, Room 5001
SANTA ANA, CALIFORNIA 92701

In reply Refer to: DCMAW-GAD

February 22, 2005

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT POLICY AND OVERSIGHT, DoD OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Report on DCMA Santa Ana's Actions on Incurred Cost Audit Reports (Project No. D2004-DIOPAC-01020) dated December 21, 2004

In response to the subject report, comments are provided on each applicable finding and recommendation in addition to actions taken/planned.

Finding A: Timely resolution and disposition of audit reports. Contracting officers at the DCMA Santa Ana District office were not always resolving contract audit reports within the required six-month period or dispositioning reports within 12 months as specified in DoD Directive 7640.2.

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 by ensuring contract audit reports are resolved and dispositioned within the timeframes specified.

Management Comments: Concur with the Finding and Recommendation. Eleven of the thirteen reports are associated with two offices that were organizationally operating as their own Command during the time frame that the reports were issued and were later merged with Santa Ana. In addition, the sample selected was not random and concentrated on the oldest reports. Of the thirteen reports reviewed, five exceeded the six month Public Law resolution requirement and six exceeded the 12 month disposition guidance. Although the six month resolution period is mandated by public law, the twelve month disposition period is not. Santa Ana's Standard Operation Procedure (SOP) on Contract Audit Follow-Up, dated October 2001, contains the six month resolution requirement and twelve month disposition guidance. The CAFU process, addressed within Santa Ana's CAFU SOP, has been stressed at periodic meetings with contracting officers throughout the years with most adhering to the requirement and guidance. Emphasis and oversight will continue to be stressed to all ACOs through Staff Assistance Visits, periodic Cross Talk Meetings with all acquisition personnel, Program Management Reviews and Management Control Reviews. Special attention will be given to the Raytheon and Northrop Grumman, formerly TRW, locations. A training session on the CAFU process will be provided to all GS 1102s by June 30, 2005.

Finding B: Collecting Penalties and Interest on Expressly Unallowable Costs. In dispositioning two of the four reports, contracting officials did not always assess or address penalties and interest. The result is that penalties and interest on about $192 thousand was not recouped.

Recommendation: We recommend that the Commander, DCMA District Office, Santa Ana, California, instruct administrative contracting officers and their 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.

Management Comments: Concur with the Finding and Recommendations. These findings relate to the Northrop Grumman field office. As part of the resolution process, contracting officers must review the audit recommendations including penalties. In one instance, the ACO did not agree with the penalty assessment although the documentation does not clearly provide the supporting rationale. In the second

instance, the ACO sustained the expressly unallowable costs, but did not clearly explain why these costs were not recouped together with the resulting interest. Santa Ana will continue to stress that contracting officers make a determination on penalties within the resolution time frame and document their decision in this regard. Santa Ana currently has an SOP requiring ACOs to obtain an Internal Review and Advisory Council (IRAC) recommendation prior to completing certain actions exceeding a one million dollar threshold. This SOP will be changed, by March 30, 2005, to reflect that ACOs will obtain an IRAC recommendation on any proposed action involving penalties/interest and, in addition, actions wherein the ACO has not agreed with the penalty assessment either wholly or in part. All GS 1102s will receive training on the penalty/interest requirements by June 30, 2005.

Finding C: Accuracy of Data: The DCMA semiannual report for the period ending September 30, 2003 contained incorrect cost questioned amounts for nine of the 13 incurred costs audit we reviewed. This occurred because the ACO's were not comparing the amounts in the DCAA audit reports with the amounts stated in the DCMA submission. The costs questioned amount reported should be the total amount questioned in the audit report, regardless of contract mix or percentage of commercial business that the reporting contracting official has responsibility and authority to disposition. There was no documentation showing how the reported amount was determined and why the differences.

Recommendation. We recommend that 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 DCMA Headquarters on the CAFU E-Tools system and verify and correct data when warranted.

Amount Changed in Appendix B and C

Management Comments on Recommendation 1: Concur with the Finding in eight of the nine cases and concur with both Recommendations. We do not concur with the finding related to Audit Report 4181-1999X10100002. Appendix C of the report lists questioned costs as $5,999,671. A DCAA memorandum, dated April 5, 2004, addressed to the Director, DCAA, Western Region, reported a change in questioned costs to $5,143,569. This amount agrees with the DCMA data entry in E-Tools. Normally, changes in an audit's questioned costs are accomplished with a superseding or supplementary audit report. That is how the CAFU E-Tools system would receive this change and how the MOCAS system previously received this change from DCAA. However, in this case, a DCAA memorandum was utilized. Furthermore, this memorandum, which recently surfaced a short time ago, changed the amount on four audit questioned costs and highlights one problem with the E-Tools software. Currently, once an audit report appears in DCAA's DMIS database and is uploaded into DCMA's E-Tools software, subsequent changes by DCAA in DMIS will not automatically be reflected in CAFU E-Tools. Another cause of the incorrect questioned costs within CAFU E-Tools is that these costs are not clearly discernible in all instances. The exact amount of these questioned costs may be obscured due to DCAA's inclusion of flow-down costs from Corporate headquarters or other allied Division(s) into the report. Although DCAA sometimes incorporates a schedule or attachment to provide greater visibility into the amount of questioned costs, this practice is not uniform. Regardless, it is recognized that it is incumbent upon ACOs to review the E-Tools information and make corrections as appropriate or elevate the issue. Santa Ana will amend their SOP, by March 30, 2005, and 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 comment(s) regarding the accuracy of these costs in their file documentation. Where discrepancies arise, ACOs will be encouraged to communicate with DCAA to clarify the amounts.

Management Comments on Recommendation 2: In accordance with DCMA protocol, Santa Ana has requested training from our Western District Process Manager and anticipates completion of such by June 30, 2005. DCMA Headquarters is ready to provide assistance, in this effort, if desired.

Finding D. Performance Standards and Evaluations. Of the four Administrative Contracting Officer reviewed, only one had comments addressing the Contract Audit Follow-up function in their standards and performance rating. DoD Directive 7640.2 specifies under section 5.2.4 that the Secretaries of the Military Departments and the Directors or the Defense Agencies shall "Ensure that performance

appraisals of appropriate acquisition officials reflect their effectiveness in resolving and dispositioning audit findings and recommendations in a timely manner, while fully protecting the Government's interests."

Recommendation: We recommend that the Commander, DCMA District Office, Santa Ana, California, ensure the CAFU requirement 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.

Management Comments: Concur with the Finding and Recommendation. The CAFU requirements have historically been in the Santa Ana ACO's work plans. Findings in the draft report refer to the Raytheon and Northrop Grumman ACOs. Santa Ana's SOP on CAFU has a requirement for ACOs/DACOs, Contract Audit Follow-Up Monitors, Team Leaders, and Commanders/Chiefs to have Contract Audit Follow-Up performance included in their respective position descriptions and treated in their performance plan as a critical element. In addition, the SOP states that performance ratings must reflect their effectiveness in resolving and dispositioning contract audit findings and recommendations. Flow down requirements were added to First Line Supervisor Evaluations and placed in each manager's Calendar Year 2005 Performance Plans. First Line Supervisors were directed to include the CAFU requirement as part of the ACO Performance Plans by January 30, 2005 for this year. This recommendation is considered complete.

General Management Comments: Assimilating other offices within Santa Ana resulted in the merging of cultures of three commands. Through Staff Assistance Visits, Management Control Reviews, bi-monthly Performance Management Reviews, ACO Cross Talks and IRAC reviews, Santa Ana will stress raising the level of awareness of the CAFU process and anticipates improved performance in this area. CAFU performance goals are included in the CMO performance plan.

KURT A. STONEROCK
Colonel, USAF
Commander