



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAS 730.3.B.2.4

August 11, 2008  
08-PAS-026(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA  
HEADS OF PRINCIPAL STAFF ELEMENTS

SUBJECT: Audit Guidance on DCAA Audit Services Performed in Support of Integrated Product Teams (IPTs)

On August 5, 2008, we notified you in MRD 08-PAS-024(R), Subject: Audit Guidance Discontinuing DCAA Participation in Integrated Product Teams (IPTs), that DCAA is no longer participating in IPTs due to concerns that DCAA's participation results in noncompliance with Generally Accepted Government Auditing Standards (GAGAS). Our policy in the area of IPTs will continue to be refined. This memorandum provides guidance on audit services that may be provided to contracting officers using an IPT or other teaming approach with the contractor (e.g., Alpha, Omega, one-pass pricing).

Although DCAA auditors may not be a team member of an IPT, DCAA will continue to provide audit services, as necessary, to assist the contracting officer in determining a fair and reasonable price. There are three guidelines that need to be followed (all three must be met):

1. The contracting officer requests the audit services;
2. The audit covers a "management approved" proposal or part of a proposal, and not a draft proposal; and
3. An audit report is issued reflecting an independent opinion that is not influenced by the contractor or Government officials.

Although DCAA is not "sitting at the table" during the IPT process, as the contractor completes the proposal, whether in part (e.g., bill of materials) or in total, DCAA may audit those submissions, including the final consolidated proposal, in response to a contracting officer's request. To avoid the appearance of a lack of independence, auditors will not provide input during an IPT process without issuing an audit report that captures all significant audit results. This may result in several audit reports issued throughout the IPT process.

Auditors should continue to recommend that DCAA provide support to the contracting officer at negotiations for the purpose of explaining reported audit results, especially for complex proposals with significant audit issues. Such support to contracting officers at negotiations is

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permissible under GAGAS as long as DCAA has issued an audit report on the contractor's proposal/submission.

Regardless of the circumstances, auditors will not provide input to contractors on such items as draft proposals, draft policies and procedures, or draft CAS disclosure statements. Auditor participation in joint reviews performed as a Government team, such as earned value management system evaluations and contractor purchasing system reviews, where DCAA provides an independent audit opinion based on its audit generally does not result in an independence concern. Auditors are required to report significant deficiencies discovered during the audit even when the contractor corrects some of the deficiencies during the audit. DCAA must issue an independent audit opinion reflecting all significant results of the audit.

We have enclosed our August 8, 2008 memorandum to Director, Defense Procurement, Acquisition Policy and Strategic Sourcing, explaining the DCAA audit services that may be provided in support of an IPT. To keep contracting officers informed, FAOs are encouraged to provide this guidance memorandum and its enclosure.

FAO personnel should direct questions to their regional POCs, and regional personnel should direct any questions to Auditing Standards Division, at (703)-767-3274 or e-mail: [DCAA-PAS@dcaa.mil](mailto:DCAA-PAS@dcaa.mil).

/s/ Terry M. Schneider  
/for/ Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

Enclosure:

Memorandum to DPAP on DCAA Audit Services Performed  
in Support of Integrated Product Teams (IPTs)

DISTRIBUTION: E



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August 8, 2008

MEMORANDUM FOR DIRECTOR, DEFENSE PROCUREMENT, ACQUISITION  
POLICY AND STRATEGIC SOURCING

SUBJECT: DCAA Audit Services Performed in Support of Integrated Product Teams (IPTs)

On August 4, 2008, we notified you that DCAA could no longer be part of an IPT (Enclosure). Although DCAA is not part of the IPT, DCAA can and should provide audit services as necessary to assist the contracting officer in determining a fair and reasonable price. However, DCAA must maintain its independence as required by Generally Accepted Government Auditing Standards (GAGAS).


Throughout the IPT process, as the contractor completes the proposal, whether in part (e.g., bill of materials) or in total, the contracting officer should request DCAA to audit the submission. The key is that the submission must be "management approved" and not be a draft. To comply with GAGAS, DCAA needs to issue an audit report reflecting an independent audit opinion that is not influenced by the contractor or Government officials.

Once the final consolidated proposal is submitted by the contractor, DCAA should be requested to audit the proposal. We highly recommend that DCAA provide support to the contracting officer at negotiations for the purpose of explaining audit results, especially for complex proposals with significant audit issues. Such support to contracting officers at negotiations is permissible under GAGAS as long as DCAA has issued an audit report on the contractor's proposal.

DCAA's withdrawal from participation as a team member of an IPT should not be viewed as relieving the contracting officer of requesting audit services as required by the acquisition regulations. Rather, DCAA needs to preserve its independence by not participating in the IPT and not providing input absent issuing an audit report based on an independent audit.

We will be issuing guidance to our field offices explaining the audit services that DCAA may provide during an IPT. Please notify the contracting officials of the Military Services and DoD Components of this change in DCAA audit policy.

If you have any questions or desire further discussion on this matter, please contact the undersigned at (703) 767-3280.

  
Kenneth J. Sascoccia  
Assistant Director  
Policy and Plans

Enclosure:

Memo to DPAP DCAA Participation on IPTs



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DEPARTMENT OF DEFENSE  
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PAS 730.3.B.2.4

August 4, 2008

MEMORANDUM FOR DIRECTOR, DEFENSE PROCUREMENT, ACQUISITION  
POLICY AND STRATEGIC SOURCING

SUBJECT: *Discontinuance of DCAA Participation in Integrated Product Teams (IPTs)*

Effective immediately, DCAA will discontinue all participation in integrated product teams (IPTs) due to concerns that DCAA participation results in a noncompliance with Generally Accepted Government Auditing Standards (GAGAS). This includes in-process IPTs and any other teaming arrangements; such as, Alpha pricing, Omega pricing and one-pass pricing. DCAA will continue to perform audits of management-approved final contractor proposals when requested by the contracting officer.

The current independence standards prohibit DCAA from auditing its own work or providing nonaudit services that are significant or material to the subject matter of the audits. Consequently, to avoid any appearance of a GAGAS independence issue, we are discontinuing DCAA participation in IPTs.

Please notify the contracting officials of the Military Services and DoD Components of this change in DCAA audit policy. As part of your notification, please emphasize that at the request of the contracting officers, DCAA will continue to audit management-approved final contractor proposals and issue an independent audit opinion at the completion of our audit.

If you have any questions or desire further discussion on this matter, please contact the undersigned at (703) 767-3280.

  
Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

Enclosure