



Department of Defense INSTRUCTION

NUMBER 7640.02

April 15, 2015

IG DoD

SUBJECT: Policy for Follow-Up on Contract Audit Reports

References: See Enclosure 1

1. PURPOSE. This instruction reissues DoD Instruction (DoDI) 7640.02 (Reference (a)) in accordance with the authority in DoD Directive (DoDD) 5106.01 (Reference (b)) to:

a. Establish policy, assign responsibilities, and provide direction for reporting requirements and follow-up procedures on contract audit reports issued by the Defense Contract Audit Agency (DCAA).

b. Implement the Inspector General Act of 1978, as amended, Title 5, United States Code, Appendix, and the Office of Management and Budget Circular No. A-50 (References (c) and (d)).

2. APPLICABILITY. This instruction:

a. Applies to OSD, the Military Departments, the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense (IG DoD), the Defense Agencies, the DoD Field Activities, and all other organizational entities within the DoD (referred to collectively in this instruction as the "DoD Components").

b. Does **not** apply to reports of the Government Accountability Office, the IG DoD, and other DoD internal audit organizations. Follow-up policies and procedures for reports of those organizations are contained in DoDI 7650.03 (Reference (e)).

3. POLICY. It is DoD policy that:

a. Audit follow-up is an integral part of evaluating and monitoring the actions taken in response to contract audits reports and is a shared responsibility of DoD Component officials and auditors.

b. Findings and recommendations contained in contract audit reports must be resolved and dispositioned in a timely manner, consistent with regulations and DoD policy.

c. DoD Components comply with the requirements of Reference (d) by establishing systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems must provide for a complete record of action taken to resolve and dispose of audit report findings and recommendations.

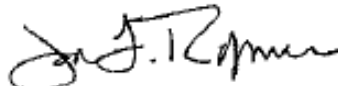
4. RESPONSIBILITIES. See Enclosure 2.

5. PROCEDURES. See Enclosure 3.

6. INFORMATION COLLECTION REQUIREMENTS. Contract audit reports, referred to in this instruction, do not require licensing with a report control symbol in accordance with paragraph 1b(7) of Volume 1 of DoD Manual 8910.01 (Reference (f)).

7. RELEASABILITY. **Cleared for public release**. This instruction is available on the Internet from the DoD Issuances Website at <http://www.dtic.mil/whs/directives>.

8. EFFECTIVE DATE. This instruction is effective April 15, 2015.



Jon T. Rymer
Inspector General of the
Department of Defense

Enclosures

1. References
2. Responsibilities
3. Procedures
4. Follow-Up Status Reports

Glossary

TABLE OF CONTENTS

ENCLOSURE 1: REFERENCES.....4

ENCLOSURE 2: RESPONSIBILITIES.....5

 IG DOD.....5

 DIRECTOR, DCAA5

 DoD COMPONENT HEADS.....5

ENCLOSURE 3: PROCEDURES.....7

 TRACKING AND REPORTING REQUIREMENTS.....7

 Tracking Requirements.....7

 Reporting Requirements for Reportable Contract Audit Reports.....7

 RESOLUTION OF REPORTABLE CONTRACT AUDIT REPORTS9

 DISPOSITION OF REPORTABLE CONTRACT AUDIT REPORTS9

ENCLOSURE 4: FOLLOW-UP STATUS REPORTS11

 GENERAL.....11

 OPEN AUDIT REPORTS11

 CLOSED AUDIT REPORTS12

 CODES FOR TYPE OF AUDIT13

GLOSSARY15

 PART I: ABBREVIATIONS AND ACRONYMS15

 PART II: DEFINITIONS.....15

TABLE

 Audit Codes14

ENCLOSURE 1

REFERENCES

- (a) DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," August 22, 2008 (hereby cancelled)
- (b) DoD Directive 5106.01, "Inspector General of the Department of Defense (IG DoD)," April 20, 2012, as amended
- (c) Inspector General Act of 1978, as amended, Title 5, United States Code, Appendix
- (d) Office of Management and Budget Circular No. A-50 (Revised), "Audit Follow-up," September 29, 1982
- (e) DoD Instruction 7650.03, "Follow-up on General Accounting Office (GAO), Inspector General of the Department of Defense (IG DoD), and Internal Audit Reports," December 18, 2014
- (f) DoD Manual 8910.01, Volume 1, "DoD Information Collections: Procedures for DoD Internal Information Collections," June 30, 2014
- (g) DoD Instruction 7600.02, "Audit Policies," October 16, 2014
- (h) Federal Acquisition Regulation, current edition
- (i) Title 10, United States Code

ENCLOSURE 2
RESPONSIBILITIES

1. IG DoD. The IG DoD:

- a. Establishes policy and procedures for contract audit follow-up and provides guidance to the DoD Components.
- b. Monitors, coordinates, and evaluates the contract follow-up system and execution of DoD Component responsibilities assigned in section 3 of this enclosure.
- c. Identifies where contract audit follow-up procedures can be improved and recommends appropriate corrective action to the DoD Component heads.
- d. Provides reports on the status of DoD contract audit follow-up efforts for the semiannual reporting periods ending March 31 and September 30 of each year, including those required by References (b) and (c), to the Secretary of Defense and Congress.

2. DIRECTOR, DCAA. Under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense, the Director, DCAA:

- a. Issues timely audit reports and provides timely and complete responses to contracting officers or review officials who request clarification or information supporting the reported findings and recommendations.
- b. Issues timely supplemental audit reports to update findings or recommendations. Does not use other communication methods (such as memorandums or e-mails) to update the findings or recommendations when the updates have a significant impact on government contract costs.
- c. Provides timely and adequate support to the IG DoD and any other DoD organization reviewing a DoD Component's contract audit follow-up program in accordance with DoDI 7600.02 (Reference (g)).
- d. Considers all feedback provided by contracting officials to analyze and improve audit procedures and practices.
- e. Provides a monthly listing of reportable contract audit reports to the DoD Components' contract audit follow-up management official. Includes the information listed in Enclosure 4 of this instruction for each contract audit report.

3. DoD COMPONENT HEADS. The DoD Component heads:

- a. Designate a management official to the IG DoD as the point of contact to oversee contract audit follow-up, including resolution and disposition actions for his or her Component. Provide names, titles, telephone numbers, and email addresses of the designated management officials to the IG DoD.
- b. Establish and implement procedures whereby contracting officers consider all contract audit findings and recommendations in developing the pre-negotiation and post-negotiation positions, if applicable, including, the assessment of recommended penalties and interest.
- c. Assure that resolution and disposition actions for audit report recommendations are consistent with law, regulation, and DoD policy; and include written justification containing, when applicable, the legal basis for decisions that do not agree with audit recommendations.
- d. Establish and implement procedures to monitor the timeliness and appropriateness of resolution and disposition of contract audit reports, including the assessment of penalties and interest.
- e. Address the timeliness and effectiveness in resolving and dispositioning audit findings and recommendations in appraisals and, where appropriate, performance standards for acquisition officials involved in contract audit follow-up actions.
- f. Establish and implement procedures for maintaining records regarding the status of all contract audit reports. Retain audit follow-up records for a minimum of 6 years and 3 months after final payment of the last contract affected by the audit.
- g. Require periodic internal reviews of the DoD Components' follow-up programs to determine whether contracting officials timely and effectively resolve and disposition audit findings and recommendations, including the assessment of penalties and interest.
- h. Require the contracting officer to provide a copy of the post-negotiation memorandum to the DCAA auditor and other affected government offices, as applicable.
- i. Promptly update the status of actions taken to resolve and disposition reportable contract audit reports to facilitate the reporting responsibilities in paragraph 1d of this enclosure.
- j. Ensure that DoD Component acquisition personnel are trained in resolving and dispositioning contract audit reports and complying with the contract audit follow-up reporting requirements.

ENCLOSURE 3

PROCEDURES

1. TRACKING AND REPORTING REQUIREMENTS

a. Tracking Requirements. All contract audit reports will be tracked.

(1) Reportable contract audit reports (see the Glossary) are subject to reporting requirements discussed in paragraph 1b of this enclosure.

(2) Non-reportable contract audit reports (see the Glossary) may be tracked using records maintained in official contract files. Although not required, inclusion of non-reportable contract audit reports in the contract audit follow-up system (discussed in paragraph 1(b)(1)(a) of this enclosure) is recommended.

b. Reporting Requirements for Reportable Contract Audit Reports

(1) The Defense Contract Management Agency (DCMA):

(a) Maintains an electronic system, referred to as the contract audit follow-up system, that records the actions taken to resolve and disposition contract audit reports. The contract audit follow-up system must include a record of the information listed in Enclosure 4 of this instruction. The contract audit follow-up system records will serve as a source for the semiannual status information reported by the IG DoD in accordance with paragraph 1d of Enclosure 2 of this instruction.

(b) Ensures that the DCAA monthly listing of reportable contract audit reports is promptly incorporated into the contract audit follow-up system (see paragraph 1b(3) of this enclosure).

(2) The DoD Components:

(a) Ensure that contracting officers promptly update the status of reportable contract audit reports within the electronic contract audit follow-up system maintained by DCMA, or

(b) For Components that do not use the electronic contract audit follow-up system, provide to the IG DoD a hard-copy report on the status of reportable audit reports within 3 business days following the close of the semiannual reporting periods (March 31 and September 30 of each year). Include the information listed in Enclosure 4 of this instruction for each contract audit report. Use of the electronic contract audit follow-up system is recommended.

(3) The DCAA provides a listing of reportable contract audit reports issued each month to the DoD Components' contract audit follow-up management official or designated point of

contact within 3 business days following month's end (include the information listed in Enclosure 4 of this instruction).

(4) The DoD Component contracting officers:

(a) Establish and update estimated target dates for resolving and dispositioning each reportable contract audit report assigned to them.

(b) Promptly update the status of reportable contract audit reports as resolved, unresolved, dispositioned, or in litigation or investigation within the contract audit follow-up system.

(c) Ensure the accuracy of all data in the contract audit follow-up system.

(d) Report questioned costs and sustained amounts in the contract audit follow-up system by:

1. Including those agreed to between the auditor and contractor, except for audit-determined incurred cost audit reports where the auditor and contractor agree on all questioned costs and the auditor does not identify questioned costs subject to penalty.

2. Including those negotiated by another DoD contracting officer that are not reported elsewhere in the contract audit follow-up system.

3. Excluding corporate or divisional allocated costs if another DoD contracting officer is responsible for negotiating and reporting them in the contract audit follow-up system.

4. Not adjusting for contract type (e.g., fixed-price or cost-type) or percent of commercial business.

(e) If DCAA revises or supplements the audit report, disposition the original report with questioned cost and questioned cost sustained amounts of zero as of the date of the updated report.

(5) The IG DoD:

(a) Collects the contract audit follow-up data of each DoD Component for the semiannual reporting periods ending March 31 and September 30.

(b) Summarizes the contract audit follow-up data for all DoD Components and includes the summary in the IG DoD Semiannual Report to Congress.

2. RESOLUTION OF REPORTABLE CONTRACT AUDIT REPORTS. The DoD Component contracting officer, consistent with the authority and responsibilities described in section 1.602 of the Federal Acquisition Regulation (Reference (h)):

a. Resolves reportable audit reports within 6 months of report issuance unless another regulation or policy provides for a shorter timeline. If the audit report is not resolved within 6 months (or applicable shorter timeline), thereafter document the actions taken to achieve resolution at least monthly.

b. Coordinates with the other government agencies that have negotiation responsibility over a portion of the findings or recommendations when resolving audit reports.

c. Documents the resolution of the audit report in a signed and dated pre-negotiation memorandum, if applicable. Indicate whether each finding or recommendation is agreed to and, if not, document the rationale for the disagreement. When no negotiation is required, document the resolution of the contract audit report in the contract file.

(1) Consult with legal counsel and document the legal basis for the resolution when there is a disagreement with the reported findings or recommendations based on an interpretation of law, regulation, or the authority of officials, as Reference (d) requires. Document the consultation with legal counsel and any review above the contracting officer in the contract file.

(2) Resolve all findings and recommendations (including any associated penalties and interest) and complete the pre-negotiation memorandum before reporting the contract audit report as resolved in the contract audit follow-up system.

3. DISPOSITION OF REPORTABLE CONTRACT AUDIT REPORTS. The DoD Component contracting officer, consistent with the authority and responsibilities described in section 1.602 of Reference (i):

a. Dispositions reportable audit reports within 12 months of report issuance unless another regulation or policy provides for a shorter timeline. If the disposition of the audit report is not completed within 12 months (or applicable shorter timeline), thereafter document the actions taken to achieve disposition at least monthly.

b. Documents the disposition results of all reported findings and recommendations in a signed and dated post-negotiation memorandum. For indirect rates, include a reconciliation of all costs questioned to the DCAA audit report and the identification of cost or pricing data submitted during the negotiations that were relied upon in reaching a settlement, as subsection 42.705-1(b)(5)(iii) of Reference (i) requires. For each audit finding and recommendation, indicate whether the finding and/or recommendation is agreed to, and if not, document the rationale for the disagreement. When no negotiation is required, document the disposition of the audit report in a memorandum and include it in the contract file.

(1) Consult with legal counsel and document the legal basis for the disposition when the contracting officer disagrees with the reported findings or recommendations based on an interpretation of law, regulation, or the authority of officials, as Reference (d) requires.

Document the consultation with legal counsel and any review above the contracting officer in the post-negotiation memorandum placed in the contract file.

(2) Incorporate the negotiation results from other government agencies in the post-negotiation memorandum, if applicable.

(3) Address all audit findings and recommendations (including the disposition of unresolved costs and the assessment of penalties and interest) and complete the post-negotiation memorandum before reporting the contract audit report as dispositioned in the contract audit follow-up system. However, the contracting officer may disposition an incurred cost audit report in the contract audit follow-up system before disposition of unresolved costs if the unresolved costs have no impact on the indirect rates (e.g., subcontract costs). Include a remark in the post-negotiation memorandum and the contract audit follow-up system indicating that the unresolved costs will be addressed upon receipt of the DCAA audit opinion on the unresolved costs.

c. Provides a copy of the negotiation memorandum to DCAA and to other government agencies involved in, or affected by, the negotiation, as appropriate. When no negotiation is required, provide a copy of other documentation dispositioning the audit report to DCAA and to other government agencies as appropriate.

d. Assesses penalties and interest (or document a waiver) in accordance with section 42.709 of Reference (h) if the contracting officer determines that a contractor included costs that are expressly unallowable or previously determined to be unallowable in its final indirect cost rate proposal. Report the amount of assessed penalties in the contract audit follow-up system separate from the reported questioned costs sustained.

e. Collects interest assessed on overpayments resulting from defective cost or pricing data on DoD contracts in accordance with section 2306(a) of Title 10, United States Code (Reference (i)) and subsection 15.407-1(b)(7) of Reference (h). Collect interest assessed on increased costs paid by the government as a result of a cost accounting standard (CAS) noncompliance in accordance with subsections 52.230-2(a)(5), 52.230-3(a)(4), and 52.230-4(a)(4) of Reference (h).

ENCLOSURE 4

FOLLOW-UP STATUS REPORTS

1. GENERAL. Follow-up status reports provide information for open and closed audit reports in the contract audit follow-up system.

2. OPEN AUDIT REPORTS. Information reported for each open audit report must include, as applicable:
 - a. Audit Report Number: DCAA report number.
 - b. Audit Report Date: Report issuance date.
 - c. Contractor Name: Name of audited entity.
 - d. Commercial and Government Entity (CAGE) Code: Federal identification number for businesses that contract with the government, assigned by the Defense Logistics Agency.
 - e. Data Universal Numbering System (DUNS) Number: A nine-digit identification number for a single business entity assigned by Dun & Bradstreet.
 - f. Audit Type: Audit code from the table in section 4 of this enclosure.
 - g. Questioned costs, potential cost avoidance, or recommended price adjustment: Amount identified in the audit report unadjusted for government participation.
 - h. Updated questioned costs, potential cost avoidance, or recommended price adjustment: Total amount resulting from any adjustments made by the contracting officer to the originally reported questioned cost.
 - i. Questioned Cost Subject to Penalty: Amount subject to penalty according to the audit report.
 - j. Qualifications or Unresolved Costs: Yes or no.
 - k. Status: Unresolved or resolved.
 - l. Target Resolution Date: Current date of expected resolution.
 - m. Target Disposition Date: Current date of expected disposition.
 - n. Actual Resolution Date: Date resolved.

- o. In Litigation: Yes or no. If yes, include the docket number.
- p. Criminal Investigation Involvement: Yes or no.
- q. Original Audit Report Date: Date of initial audit report that was revised or supplemented by a later report.
- r. Contracting Officer: Contracting officer name or primary point of contact.
- s. DoD Activity Address Code (DoDAAC): Six-digit code that uniquely identifies a DoD unit, activity, or organization.
- t. Remarks: Explanations needed to clarify information submitted.

3. CLOSED AUDIT REPORTS. Information reported for each closed audit report will include, as applicable:

- a. Audit Report Number: DCAA report number.
- b. Audit Report Date: Report issuance date.
- c. Contractor Name: Name of audited entity.
- d. CAGE Code: Federal identification number for businesses that contract with the government, assigned by the Defense Logistics Agency.
- e. DUNS Number: A nine-digit identification number for a single business entity assigned by Dun & Bradstreet.
- f. Audit Type: Audit code from the table in section 4 of this enclosure.
- g. Disposition Date: Date dispositioned.
- h. Questioned costs, potential cost avoidance, or recommended price adjustment: Amount of exception identified in the audit report that is unadjusted for government participation.
- i. Updated questioned costs, potential cost avoidance, or recommended price adjustment: Total amount resulting from any adjustments made by the contracting officer to the originally reported questioned cost.
- j. Qualifications or Unresolved Costs: Yes or no.
- k. Questioned costs, potential cost avoidance, or recommended price adjustment sustained: The amount(s) that the contracting officer agreed to, either during the course of the audit or through a final determination. Do not adjust the amount(s) for commercial business or

government participation. Do not report an amount greater than the audit-reported questioned costs or updated questioned costs.

l. Percentage of questioned costs or potential cost avoidance sustained: Amount sustained divided by the amount questioned.

m. Questioned Costs Subject to Penalty: Amount subject to penalty according to the audit report.

n. Penalty Assessed: Yes or no.

o. Penalty: Amounts that the contracting officer assessed for an expressly unallowable cost or a cost previously determined to be unallowable, a cost accounting standard (CAS) noncompliance, or a post-award price adjustment. The contracting officer must assess penalties in addition to the recovery of questioned costs sustained.

p. Interest: Amount that the contracting officer determined the contractor owes the government for the use of any funds which the contractor has been paid in excess of the amount to which the contractor was entitled. The contracting officer must assess interest in addition to the recovery of questioned costs sustained.

q. Original Audit Report Date: Date of audit report that was revised or supplemented, if applicable.

r. Contracting Officer: Contracting officer name or primary point of contact.

s. DoDAAC: Six-digit code that uniquely identifies the unit, activity, or organization.

t. Remarks: Explanations needed to clarify information submitted.

4. CODES FOR TYPE OF AUDIT. The codes listed in the table must be used in the contract audit follow-up system for designating the type of audit conducted.

Table. Audit Codes

Code	Type of Audit
A	Reserved
B	Business Systems Audits
C	Claims and Equitable Adjustments
D	Post-Award Audits (Defective Pricing)
E	CAS Audits
F	Operations Audits and Operations Audits Follow-Up
G	Incurred Costs and Settlement of Final Indirect Cost Rates
H	Pre-Award Contract Audits
I	Other
J	Terminations
K	Earned Value Management System Audits

GLOSSARY

PART I. ABBREVIATIONS AND ACRONYMS

ASBCA	Armed Services Board of Contract Appeals
CAGE	Commercial and Government Entity
CAS	Cost Accounting Standard
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DoDAAC	DoD Activity Address Code
DoDD	Department of Defense Directive
DoDI	Department of Defense Instruction
DUNS	Data Universal Numbering System
GAO	Government Accountability Office
IG DoD	Inspector General of the Department of Defense

PART II. DEFINITIONS

These terms and their definitions are for the purpose of this instruction.

adverse opinion. An audit opinion reflecting that the contractor's proposal is not acceptable as a basis for negotiation of a fair and reasonable price.

agreed-upon procedures. An engagement where a requestor asks the auditor to report findings based on specific procedures performed on a subject matter or an assertion. The requestor and auditor must agree on the specific procedures performed and the criteria used. The auditor does not render an opinion on the results of the agreed-upon procedures.

auditor unresolved costs. Costs for which the auditor has not yet expressed an opinion.

closed audit report. A report that a contracting officer has dispositioned and closed for follow-up purposes.

contract audit report. The contract auditor's written advice to DoD procurement and contract administration officials for use in negotiation, administration, and settlement of contracts and subcontracts.

disposition. The status of an audit report when the contracting officer has prepared a signed and dated post-negotiation memorandum and one of the following actions occurs:

- a. The contracting officer notifies the contractor in writing of the final determination covering business systems findings and recommendations.
- b. The contracting officer negotiates a settlement covering all audit issues with the contractor (including corporate or home office allocations) and executes any required contracting action (e.g. indirect rate agreement).
- c. The contracting officer issues a final determination/decision on a CAS noncompliance audit or other matter pursuant to the disputes clause. The contracting officer must reinstate the audit report as an open report (“in litigation status”) if the contractor appeals to:
 - (1) The Armed Services Board of Contract Appeals (ASBCA) within 90 days, or
 - (2) The U.S. Court of Federal Claims within 12 months.
- d. The contracting officer makes a final determination on a disclosure statement submission or revision.
- e. The ASBCA or U.S. Court of Federal Claims renders a decision, any required actions directed by ASBCA or the Court are completed, and a contractual document is executed.
- f. DCAA supplements or supersedes the audit report.
- g. The contracting officer determines final action on a CAS cost impact proposal.
- h. The contracting officer makes a written determination that corrective actions have been taken, so that no further actions can be reasonably anticipated.

investigation. The status of an audit report when an investigative agency of the government is reviewing any of the audit report issues.

litigation. The status of an audit report when any of the audit report issues are under review by a court or tribunal including the ASBCA, the U.S. Court of Federal Claims, the U.S. Court of Appeals for the Federal Circuit, or the United States Supreme Court.

management official. GS-15/O-6 or above, granted authority by a DoD Component to receive and analyze audit reports, provide timely responses to the audit organization, and take corrective action, where appropriate.

nonaudit service. Professional services conducted by DCAA other than audits and attestation engagements. Nonaudit services are not performed in accordance with generally accepted government auditing standards.

non-reportable contract audit reports. Reports covering agreed-upon procedures, nonaudit services, or audits of contractor estimates of future costs.

open audit report. An audit report that a contracting officer has not dispositioned during the reporting period.

original audit report date. The date of an initial audit report that DCAA revised or supplemented by a subsequent audit report.

potential cost avoidance. The DCAA estimate of cost savings associated with implementing a DCAA recommendation to improve the economy or efficiency of contractor operations.

qualification. A restriction on the audit scope or the lack of sufficient evidential matter which preclude the auditor from expressing an unqualified opinion.

questioned costs. The DCAA reported amount of audit exception, potential cost avoidance, or recommended price adjustment associated with DoD contractor costs resulting from:

a. An alleged violation of a law, regulation, contract, grant, cooperative agreement, or other document governing the expenditure of funds.

b. An auditor finding that, at the time of the audit, the contractor failed to provide adequate documentation to support the costs.

c. An auditor finding or determination that the costs are unnecessary or unreasonable.

Within the contract audit follow-up system, the questioned costs are unadjusted for government participation.

questioned costs subject to penalty. Includes:

a. Questioned indirect costs identified as expressly unallowable based on Federal Acquisition Regulation sections 31.001 and 31.205 of Reference (h) or other DoD Agency supplement, which are subject to a single-level penalty under section 2324(b)(1)(A) of Reference (i).

b. Questioned costs determined to be unallowable (or mutually agreed to be unallowable) before a contractor claims them in an indirect cost proposal, which are subject to a second-level penalty under section 2324(b)(2) or Reference (i).

questioned costs sustained. Questioned cost amount that the contractor must not charge to the government, including questioned costs that the contractor agrees to during the course of the audit, and those resulting from a contracting officer final determination. Contracting officers should report costs sustained, penalties, and interest separately in the contract audit follow-up system under the audit report that cites the questioned costs. Questioned costs sustained must not exceed the DCAA-reported questioned costs or updated questioned costs and should not include any amounts for penalties or interest assessed.

recommended price adjustment. An amount reported by DCAA in a post-award audit that reflects the estimated increase in contract price caused by a contractor submitting defective cost or pricing data.

reportable contract audit reports. All contract audit reports that include questioned costs or recommendations and require contracting officer action are subject to the reporting requirements addressed in paragraph 1b of Enclosure 3 of this instruction, except for those involving:

- a. Contractor estimates of future costs.
- b. Agreed-upon procedures.
- c. Nonaudit services.

In addition, all audit reports that revise or supplement a previously issued reportable audit report are reportable, regardless of whether the report includes findings, recommendations, questioned costs, or potential cost avoidance.

resolution. The status of an audit report when the contracting officer has documented an action plan for addressing the reported findings in a pre-negotiation memorandum. For audit reports covering CAS noncompliances, resolution is achieved when the contracting officer issues a notice of potential noncompliance to the contractor. For audit reports covering business systems, resolution is achieved when the contracting officer notifies the contractor in writing of the initial determination.

tracking. The process of maintaining accurate records on the status of reported audit findings through the entire process from resolution to disposition. For non-reportable audit reports, the records may be maintained in the official contract files. For reportable audit reports, the records must be included in the contract audit follow-up system in accordance with paragraph 1b of Enclosure 3 of this instruction.

unresolved. The status of an audit report when the contracting officer has not yet documented an action plan on reported audit findings and recommendations in a pre-negotiation memorandum.