

MEMORANDUM OF UNDERSTANDING
BETWEEN
THE DEFENSE CONTRACT AUDIT AGENCY
AND
THE DEFENSE CONTRACT MANAGEMENT AGENCY
FOR
EARNED VALUE MANAGEMENT OVERSIGHT SERVICES

1. PURPOSE:

This Memorandum of Understanding (MOU) between the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA) sets forth the DCAA services to be provided to DCMA for compliance reviews and surveillance of contractor Earned Value Management Systems (EVMS) processes and reports, and coordination and advisory support. DCMA and DCAA will establish separate EVMS MOA's with the Navy for their respective roles in supporting annual surveillance of the Supervisor of Shipbuilding (SUPSHIP) contracts.

This MOU does not apply to existing Host Nation agreements in which the US Government requests the Host Nations Audit Office perform the Cost and Price audits or reviews. This includes the EVMS Compliance Reviews in Host Nations contractor facilities.

2. AUTHORITY:

- a. Memorandum for Service Acquisition Executives, "Performance Measurement Joint Executive Group," dated December 4, 1995
- b. Department of Defense (DoD) Directive 5105.64, "Defense Contract Management Agency," September 27, 2000
- c. DoD Instruction 5000.02, "Operation of the Defense Acquisition System," Section 11.3.1.5, "Earned Value Management System (EVMS) Compliance, Validation, and Surveillance"
- d. DoD Federal Acquisition Regulation (DFARS) 242.302 (S-71), Contract Administration Function
- e. Under Secretary of Defense for Acquisition, Technology and Logistics memorandum, Subject: Defense Contract Management Agency's Earned Value Management (EVM) Roles and Responsibilities, dated April 23, 2007.
- f. DoD Directive 5105.36, "Defense Contract Audit Agency," January 4, 2010, Section 3.1.
- g. Under Secretary of Defense for Acquisition, Technology and Logistics memorandum, Subject: Use of Earned Value Management (EVM) in the Department of Defense, dated July 3, 2007
- h. DoD Instruction 7640.02, Policy for Follow-up on Contract Audit Reports, dated August 22, 2008

- i. Director Defense Procurement and Acquisition Policy memorandum on Resolving Contract Audit Recommendations, dated December 4, 2009
- j. DCMA Instruction Contract Audit Follow Up (CAFU), dated December 2010
- k. DCMA Instruction Contract Management Boards of Review (BOR), dated March, 2010

3. BACKGROUND:

- a. DCAA performs contract auditing for the Department of Defense (DoD) and provides accounting and financial advisory audit services in connection with the negotiation, administration and settlement of contracts and subcontracts to all DoD procurement and contract administration activities. DCAA also furnishes contract audit services to other Government agencies, as appropriate.
- b. DCMA is designated as the Department's Executive Agency for EVMS as delineated in Memorandum for Service Acquisition Executives "Performance Measurement Joint Executive Group" dated December 4, 1995, and is responsible for determining EVMS compliance of supplier management systems with the American National Standards Institute/Electronic Industries Alliance EVMS (ANSI/EIA-748) Guidelines, conducting EVMS review and surveillance to verify initial and ongoing EVMS compliance, determining compliance for applicable contracts and agreements in accordance with the DoD EVM policy and guidance, and ensuring consistent application and interpretation of the Guidelines.

4. SERVICES:

- a. DCAA audit services to advise DCMA in EVMS compliance and system surveillance reviews include the following:
 - (1) Compliance Reviews: DCAA will use a risk-based approach to scope and execute the current audit program in support of the scheduled compliance review. DCAA will select the contracts for review based on all the applicable contracts with EVMS requirements at the site(s) under review taking into consideration DCMA's assessment of at-risk contracts. The DCAA portion of the compliance reviews will generally cover the Guidelines identified in (4) below, and will be performed as examination level attestation engagements. DCAA's audit reports will describe the deficiencies in sufficient detail to allow DCMA to understand the deficiencies and the potential adverse impact to EVM performance measurement and to the Government. DCAA will coordinate reasonable audit report due dates with the DCMA to allow adequate time for audit findings to be incorporated into the DCMA EVMS compliance review reports or the DCMA standard surveillance. Any deviations to the requested due date will be coordinated in advance between the cognizant DCAA and DCMA offices. If disagreements concerning audit due dates cannot be resolved at the local/site level, significant disagreements should be elevated through DCMA and DCAA chains of command. These audits will generally be based on a DCMA request.

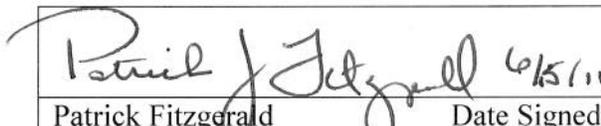
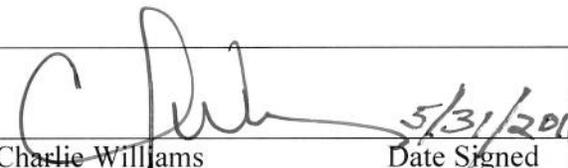
- (2) Standard Surveillance: DCAA will provide advisory audit support to surveillance activities performed by the DCMA Contract Management Offices (CMO) in accordance with the DCMA's Standard Surveillance Instruction (SSI) and the DCAA's current audit program. These audits will generally be based on a DCMA request which will identify the specific Guideline(s) for review. DCAA will select the contracts for review based on all the applicable EVMS contracts at the site(s) under review taking into consideration DCMA's assessment of at-risk contracts. The surveillance reviews will generally be performed as examination level attestation engagements. DCAA's audit report will describe the deficiencies in sufficient detail to allow the DCMA to understand the deficiencies and the potential adverse impact to the EVM performance measurement and to the Government. DCAA will coordinate reasonable audit report due dates with the DCMA to allow adequate time for audit findings to be incorporated into the DCMA standard surveillance. Any deviations to the requested due date will be coordinated in advance between the cognizant DCAA and DCMA offices. If disagreements concerning audit due dates cannot be resolved at the local/site level, significant disagreements should be elevated through DCMA and DCAA chains of command.
- (3) In the event the DCAA reported deficiencies are not accepted by the DCMA Administrative Contracting Officer, the DCMA Board of Review procedures should be followed. These procedures are in accordance with the Director Defense Procurement and Acquisition Policy memorandum on Resolving Contract Audit Recommendations, dated December 4, 2009.
- (4) In order to maximize efficiencies and eliminate duplication of effort, DCAA EVMS advisory audits will be limited to the Guidelines listed below and as identified for review by DCMA. DCAA will incorporate instructions from DoDI 5000.02 which requires compliance with ANSI/EIA-748 Guidelines.
 - i. Guideline 13 – Establish overhead budgets
 - ii. Guideline 16 – Record direct costs
 - iii. Guideline 17 – No allocation of single control account into two or more work breakdown structure (WBS) elements
 - iv. Guideline 18 – No allocation of single control account into two or more organizational breakdown structure (OBS) elements
 - v. Guideline 19 – Record and allocate indirect costs
 - vi. Guideline 20 – Identify unit or lot costs
 - vii. Guideline 21 – Material accounting (pertaining to actual costs and not earned value)
 - viii. Guideline 30 – Control retroactive changes (pertaining to actual costs and not earned value)
- (5) Prior to commencement of the DCMA compliance or surveillance reviews, the cognizant DCAA personnel will be available to brief the local DCMA regarding outstanding business system deficiencies and any potential impact the deficiencies may have on the Guidelines.

b. DCMA services to be provided include the following:

- (1) The EVM Center will:
 - i. Provide the planned compliance review schedule to the DCAA for the next calendar year.
 - ii. DCMA will provide a written request for audit assistance to the local DCAA Field Audit Office (FAO) at least 90 days prior to compliance reviews that require DCAA support.
- (2) The CMO will provide annually to the local DCAA FAO the Standard Surveillance Plan (SSP) with the planned surveillance schedule for the fiscal year. DCMA will provide a written request for audit services based on the SSP and coordinate reasonable audit report due dates with DCAA as set forth above.
- (3) Provide advice and assistance on interpreting and implementing the DoD EVMS policy and guidance.
- (4) Disposition of DCAA EVMS findings in accordance with DCMA CAFU policy and DoD Instruction 7640.02, Policy for Follow-Up on Contract Audit Reports.
- (5) DCMA and DCAA shall perform these services at their own cost without contribution or funding from the other agency.

5. EFFECTIVE DATE:

This agreement becomes effective upon the date of the last approving signature. It is a working document without an established time period and, as such, can be amended at any time with the consent of both parties or unilaterally canceled by either party with 120 days notice. The agreement may be reviewed at the request of either party, but should be reviewed at least once every three years to determine the need for confirmation, modification, or termination. Any resource issues will be discussed at the headquarters level as soon as the issue arises.

 Patrick Fitzgerald Director Defense Contract Audit Agency Fort Belvoir, Virginia	6/15/11 Date Signed	 Charlie Williams Director Defense Contract Management Agency Alexandria, Virginia	5/31/2011 Date Signed
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