

## APPENDIX B: CONTRACT AUDITS

### Final Completed Contract or Contract-Related Audits Containing Significant Findings

During the reporting period, the DoD OIG issued one and the Defense Contract Audit Agency (DCAA) issued five final, completed contract audit reports to contracting activities containing significant audit findings. To view the DoD OIG report, click on the report number.

#### DoD OIG

<b>Audit Report No. DODIG-2023-006</b>	<b>Date:</b> October 19, 2022
<b>Subject:</b> Audit of Department of Defense Federal Mall Purchases	
<b>Report:</b> \$13.8 Million in Funds Put to Better Use; \$603,335 Wasted Funds; and \$367,081 Questioned Costs	
<p>The DoD OIG issued a report that discussed the Defense Logistics Agency's oversight of the Federal Mall, which is an e-commerce ordering system that allows registered users to acquire products from government and commercial sources. The audit determined that DoD activities purchased items that vendors added to their catalogs without approval and at prices that the Defense Logistics Agency had not approved. The audit identified \$367,081 in questioned costs when Federal Mall vendors violated contract terms by increasing prices without approval. Additionally, the audit determined that the Army may have inappropriately purchased items from the Federal Mall using Military Standard Requisitioning and Issue Procedures. The audit identified \$23.9 million in potential monetary benefits and another \$603,335 in wasted funds. After the DoD OIG issued the final report, the DoD OIG and the Army agreed that the \$23.9 million in purchases were not prohibited; however, the Army identified \$13.8 million in funds that could potentially have been put to better use for readiness needs.</p>	

#### DCAA

<b>Audit Report No. 05931-2022J17200001</b>	<b>Date:</b> October 24, 2022
<b>Subject:</b> Independent Audit Report on Proposed Amounts in Contractor's Request for Equitable Adjustment Proposal	
<b>Prepared for:</b> Naval Sea Systems Command (NAVSEA)	
<b>Report:</b> \$13.5 Million Total Questioned Costs	
<p>The Defense Contract Audit Agency (DCAA) identified \$13.5 million in questioned costs related to direct labor, direct materials, temp labor, subcontract costs, indirect costs, and profit, in noncompliance with Defense Federal Acquisition Regulation Supplement (DFARS) 252.243-7001, "Pricing of Contract Modifications"; Federal Acquisition Regulation (FAR) 31.201-2, "Determining Allowability"; FAR 31.201-3(a), "Determining Reasonableness"; and FAR 31.201-4, "Determining Allocability." The contractor was unable to provide supporting documentation to show that its proposed costs were incurred for the subject contract.</p>	

<b>Audit Report No. 02391-2020F10100001</b>	<b>Date:</b> December 9, 2022
<b>Subject:</b> Independent Audit Report on Proposed Amounts on Unsettled Flexibly Priced Contracts for Contractor Fiscal Year 2020	
<b>Prepared for:</b> Defense Contract Management Agency (DCMA)	
<b>Report:</b> \$35.2 Million Total Questioned Costs	
<p>The DCAA identified \$35.2 million questioned costs relating to state and local taxes, executive compensation, direct labor, direct material, travel costs, and indirect costs. The DCAA's significant findings included \$32 million related to overstated state and local income taxes that the contractor either did not incur or was unable to support with records such as tax returns, in noncompliance with FAR 31.201-2, "Determining Allowability"; FAR 31.201-3, "Determining Reasonableness"; and FAR 31.205-41, "Taxes." Other significant findings included \$1.6 million in questioned direct materials for which the contractor failed to provide essential supporting documentation, in noncompliance with FAR 31.201-2.</p>	

<b>Audit Report No. 04671-2022A17100002</b>	<b>Date:</b> February 15, 2023
<b>Subject:</b> Independent Audit Report on Proposed Amounts in Contractor's Termination for Convenience Proposal	
<b>Prepared for:</b> U.S. Army Corps of Engineers (USACE)	
<b>Report:</b> \$114.2 Million Total Questioned Costs	
<p>The DCAA identified \$114.2 million in questioned costs related to direct labor, equipment, subcontracts, indirect costs, and profit. The DCAA's significant findings included \$66.6 million of questioned subcontract costs incurred by a wholly owned subsidiary. The contractor was unable to provide sufficient documentation to show that the costs were incurred and allocable to the contract, in noncompliance with FAR 31.201-2, "Determining Allowability," and FAR 31.201-4, "Determining Allocability." Other significant findings included \$37 million of questioned profit the contractor applied to settlement and suspension costs in noncompliance with FAR 49.202(a), "Profit," and FAR 52.242-14(b), "Suspension of Work," and \$9 million of questioned profit associated with related party costs which the contractor transferred at price rather than cost, in noncompliance FAR 31.205-26(e), "Material Costs."</p>	

<b>Audit Report No. 01721-2022D17200001</b>	<b>Date:</b> February 24, 2023
<b>Subject:</b> Independent Audit Report on Proposed Amounts in Contractor's Request for Equitable Adjustment Proposals	
<b>Prepared for:</b> U.S. Army Corps of Engineers (USACE)	
<b>Report:</b> €23.8 Million Total Questioned Costs	
<p>The DCAA identified €23.8 million (Euros) in questioned costs related to labor, other direct costs (ODCs), and subcontract costs. The DCAA's significant findings included €7.4 million of questioned labor costs, €6.4 million of questioned ODCs, and €3.6 million of questioned subcontract costs that the contractor either duplicated or was unable to provide supporting documentation for, in noncompliance with FAR 31.201-2, "Determining Allowability;" FAR 31.201-3, "Determining Reasonableness;" and FAR 31.201-4, "Determining Allocability."</p>	

<b>Audit Report No. 03971-2021B10100863</b>	<b>Date:</b> February 28, 2023
<b>Subject:</b> Independent Audit Report on Proposed Corporate Allocations to Unsettled Flexibly Priced Contracts for Contractor Fiscal Year 2021	
<b>Prepared for:</b> Defense Contract Management Agency (DCMA)	
<b>Report:</b> \$10.8 Million Total Questioned Costs	
<p>The DCAA identified \$15.5 million in questioned corporate allocations and a \$4.7 million upward adjustment to corporate allocations. The DCAA's significant findings included \$14.7 million related to a gain on the contractor's investment in a spin-off company for which the contractor failed to provide a credit to the government, in noncompliance with FAR 31.205-16(a), "Gains and Losses on Disposition or Impairment of Depreciable Property or Other Capital Assets." Other significant findings included \$778,000 in year-end journal entries for which the contractor was unable to provide supporting documentation, in noncompliance with FAR 31.201-2, "Determining Allowability."</p>	