



HEADQUARTERS

POLICY FLASH

POLICY FLASH 2005-07

DATE: November 2, 2004
TO: Procurement Directors
FROM: Office of Procurement and Assistance Policy, ME-61
Office of Procurement and Assistance Management

SUBJECT: **Cooperative Audit Strategy**

SUMMARY: This Flash transmits revised Acquisition Guide Chapter 70.4 – Cooperative Audit Strategy and Acquisition Letter AL-2005-04, which provides an associated class deviation directing the use of the revised version of the clauses at 970.5203-1, Management Controls and 970.5237-3, Accounts, Records, and Inspection.



1. Revised Guide Chapter 70.4, Cooperative Audit Strategy:
 - a. Establishes a requirement for the contractor to provide an Internal Audit Design for each 5-year period of a contract. The design is to consist of:
 - (1) Organizational placement of the internal audit function to assure functional independence;
 - (2) Size, experience, and educational requirements of audit staff;
 - (3) Audit standards to be applied;
 - (4) Plan for internal audit function over 5-year period;
 - (5) Plan for audit of allowable costs;
 - (6) Use of DCAA for supplementing audit of prime or subcontract allowable costs; and
 - (7) Schedule for peer review.
 - b. Provides detailed standards for the Annual Audit Plan.
 - c. Provides detailed standards for the Annual Audit Report.
2. AL 2005-04, Class Deviation to Reflect Changes to the Cooperative Audit Strategy, provides the class deviation signed by the Director, Office of Procurement and Assistance Management and Director, Office of Procurement and Assistance Management (NNSA), requiring the use of and expanding coverage in contract clauses to reflect critical aspects of the Cooperative Audit Strategy:
 - a. With regard to the clause at 970.5203-1, Management Controls (DEC 2000) (Deviation), submission of copies of reports reflecting the status of recommendations that result from business, financial, or management controls audits of the contractor.
 - b. With regard to the clause at 970.5232-3, Accounts, Records, and Inspection (DEC 2000) (Deviation):
 - (1) Timing of deliverables, *i.e.*, 5-year audit design, and annual audit plan, annual audit report;
 - (2) Express discussion of Statement of Costs Incurred and Claimed; and
 - (3) Remedies if the contractor should fail to maintain business/financial systems sufficient to maintain DOE confidence, *e.g.*, impose conditions upon the contractor's use of the special financial institution account,

require the contractor to pay an amount equal to the unallowable costs payments improperly made, or take any other action or combination of actions allowed by the contract, at law, or in equity.



Michael P. Fischetti, Acting Director
Office of Procurement and
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Attachments
Acquisition Letter 2005-04
Acquisition Guide Chapter 70.4

cc:
PPAG Members