



THE SECRETARY OF DEFENSE
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October 29, 2010

MEMORANDUM FOR DEFENSE CONTRACT MANAGEMENT AGENCY
DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: Cost Recovery Initiative

The Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) are launching a joint agency initiative aimed at aggressively targeting contractual opportunities to recover taxpayer dollars by dispositioning reportable audits, suspended/disallowed costs, cost accounting practice changes, and other cost allowability and allocability issues. This Cost Recovery Initiative is a coordinated plan to prioritize our collective efforts to recover costs and close audit issues.

Currently, there are almost 400 reportable audits and about 300 Form 1s valued at \$295M that are awaiting the Administrative Contracting Officers' (ACOs) disposition. Additionally, there are a substantial number of other open cost allowability and allocability issues awaiting resolution. The reportable audits continue to be added to the list of those already awaiting disposition. Together, we are making a commitment to dispositioning a significant portion of these issues over the next year with specific milestones established for each phase of the project by prioritizing the issues awaiting disposition. Starting immediately, we will be addressing the highest priority actions significantly impacting the government.

Our goal is not only returning needed funds to the Department and the American taxpayer; but, clearing backlogs of issues that will enable the Department and contractors to move forward and focus on current contracting challenges, as well. The potential for monetary return and other benefits from this effort requires that we place a high-priority on the successful disposition of these matters. We will be monitoring progress and, along the way, highlighting "Bright Spots", as well as challenges we are facing – and overcoming.

In accomplishing this initiative, each agency assumes its own roles and responsibilities. DCMA will identify and prioritize issues needed for disposition by contractor and establish milestones in consultation with DCAA. ACOs will assess each issue assigned and request DCAA assistance if additional accounting and financial advice is needed. In addition, ACOs will make decisions in consideration of the DCAA audit report, additional DCAA accounting and financial advice, and any other pertinent information available to them.

In support of this project, we have established a joint Senior Steering Group that we will co-chair. In addition, a joint working group has been established which will be headed by the DCMA Contracts Policy Division and DCAA Accounting and Cost Principles Division. These groups are moving out to establish the procedures and provide the tools needed to accomplish this undertaking. Further details of each agency's roles and responsibilities in this initiative will be forthcoming over the next few weeks. We ask that all employees fully commit themselves and work together in support of this critical initiative.



Patrick J. Fitzgerald
Director
Defense Contract Audit Agency



Charlie E. Williams, Jr.
Director
Defense Contract Management Agency