

## The Ability to Accurately Input IR&D Information

Written by Nick Sanders  
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Recently DCAA issued [audit guidance](#) designed to assist its auditors with the requirement that certain "major" DOD contractors must input IR&D information into the Defense Technical Information Center (DTIC).

Readers may remember [we addressed](#) the new requirement when it was promulgated. We wrote: "In sum, the new rule establishes two requirements: (1) reporting to DTIC, and (2) review of the information reporting by DCAA and the cognizant DOD ACO to determine which IR&D projects are 'of potential interest' to the Pentagon. Failure to meet the first requirement will lead to disallowed IR&D associated with specific, individual, IR&D projects."

The new DCAA audit guidance adds some detail to our summary. It states-

Contractors subject to the regulation must:

- input project information to the DTIC database no later than three months after the end of the contractor fiscal year (CFY) in which the contractor initially incurs the associated IR&D;
- annually update information in the database for ongoing projects (no later than three months after the end of the CFY in which the associated IR&D cost is incurred); and
- update the database when the contractor considers the project completed.

Importantly, the DCAA audit guidance does not focus on the absolute accuracy of the data being input into DTIC; instead, it emphasizes the impact associated with the simple failure to input any information. With respect to audits of Forward Pricing Rates, the audit team may reduce or eliminate forecasted IR&D expenditures "based on the contractor's ability to appropriately complete the requirements to input data into the DTIC system." With respect to adequacy reviews of a contractor's Accounting System, "Audit teams should consider whether the contractor's failure to have adequate internal controls to ensure compliance with the regulation results in an accounting system deficiency."

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Based on the foregoing, an inability to timely input the required information could have far-reaching and unpleasant ramifications. Accordingly, defense contractors subject to the DTIC reporting requirement should assign responsibility for the input and also design a compliance check to ensure the information was submitted on time.

Of course, the DCAA audit guidance reminded auditors that a failure to comply with the DTIC reporting requirements could and should lead to questioned (and ultimately disallowed costs). The audit guidance stated-

If the contractor fails to input the IR&D information into the DTIC database, the costs are expressly unallowable; audit teams should question the costs and recommend application of penalties. If the team identifies significant expressly unallowable costs, consider reporting a noncompliance with CAS 405, Accounting for unallowable costs.

We have already seen both DCAA and DCMA probing the DTIC input. Frankly, it should not be a big deal to support an audit RFI for those contractors subject to the rule. This is only going to be a big deal if somebody doesn't input the information when required to do so. But contractors required to input IR&D information, who do not or cannot timely fulfill their responsibility, may be in for a very rough ride indeed.