

**SUMMARY OF MAJOR CHANGES TO  
DoD 7000.14-R, VOLUME 10, CHAPTER 22  
“RECOVERY AUDITING”**

All changes are denoted by blue font

Substantive revisions are denoted by a ★ preceding the section,  
paragraph, table, or figure that includes the revision

Hyperlinks are denoted by *underlined, bold, italic, blue font*

<b>PARA</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Reworded and reformatted chapter for clarity and ease of reading. Revised references and added electronic links.	Update/Add
220101	Deleted superseded OMB guidance and inserted new OMB guidance. Added hyperlink.	Update/Add Delete
2202	Moved Definitions section.	Update
2203	Added section describing the Department’s current Recovery Audit Program.	Add
2204	Added required annual plan submission for DoD Components.	Add
2205	Added required annual reporting requirements.	Add
2206	Updated the scope of activities.	Add
2207	Added the roles and responsibilities of the Recovery Auditing Project Officer.	Add
2210	Added paragraph from OMB implementing guidance requiring contractors to safeguard the confidentiality of sensitive information.	Add
2212	Added more detailed guidance outlined concerning the inclusion of recovery audits in the management control program.	Add
2213	Included additional detailed instructions outlining the requirements concerning the inclusion of management improvement programs to improve the Component’s overall internal control environment.	Add

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## CHAPTER 22

RECOVERY AUDIT2201 OVERVIEW

★ 220101. Purpose. This chapter establishes the Department of Defense (DoD) program to implement the requirements of [Title 31, United States Code \(U.S.C.\), section 3561 \(31 U.S.C. 3561\)](#) “Identification of Errors Made by Executive Agencies in Payments to Contractors and Recovery of Amounts Erroneously Paid,” as outlined in the Office of Management and Budget (OMB) issuance, [“Issuance of Appendix C to OMB Circular A-123,” \(OMB M-06-23\).](#) This chapter provides detailed instructions to the DoD Components for complying with the statutory requirements for recovery auditing.

220102. Applicability. The DoD Components **must** have a cost-effective program of internal controls to prevent, detect, and recover overpayments to contractors resulting from payment errors. A program of internal controls may include policies and activities, such as prepayment reviews, a requirement that all relevant documents be made available before making payment (e.g., contract, invoice, and receiving report), contract audits, and recovery audits. For DoD Components that make commercial payments of more than \$500 million in a fiscal year, or for whom DFAS makes on their behalf, a recovery audit program is **statutorily** required. When determining the cost-effectiveness of the use of recovery audit contingency contracts, any Defense Finance and Accounting Service (DFAS) resources used to assist the recovery auditing contractor **must** be taken into consideration. This includes the cost of providing government records, researching claims, and recovering amounts due the government. DoD Components **will** report the results of their recovery auditing program in accordance with [OMB Circular A-136, "Financial Reporting Requirements."](#) For more detailed guidance, see section 2205 of this chapter.

2202 DEFINITIONS

220201. Contract Audit. A contract audit refers to a post-award examination of the books and records of a federal contractor that is performed by the contracting officer, or an authorized representative of the contracting officer, pursuant to the audit and records clause incorporated into the contract. It is normally performed by an auditor that serves in an advisory capacity to the contracting officer, i.e. either DCMA or DCAA. A post-award contract audit, as distinguished from a recovery audit, is normally performed for the purpose of determining if amounts claimed by the contractor are in compliance with the terms of the contract and applicable laws and regulations. For example, the scope of a post-award contract audit may include a review of the direct and indirect costs claimed to have been incurred or anticipated to be incurred under a negotiated contract. Such reviews involved the contractor’s accounting records, including the contractor’s internal control systems. A post-award contract audit may also include a review of other pertinent contractor records; e.g., reviews to determine if a contractor’s proposal was complete, accurate, and current; reviews of contractor prices charged for commercial items sold to other federal and non-federal customers; and reviews of the

contractor's systems established for identifying and returning any progress, financing, or other provisionally-made payments received under its federal contracts that the auditor determines to be erroneous.

220202. DoD Component. The Office of the Secretary of Defense, Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Office of the Inspector General of the DoD (DoDIG), Defense Agencies, DoD Field Activities, and all other organizational entities in the DoD are considered DoD Components.

220203. Documentation Policy. This refers to the DoD policy requiring a valid contract, invoice, and receiving report prior to payment certification and subsequent payment as outlined in [Volume 5, Chapter 11, of this Regulation](#).

220204 Management Improvement Program. A management improvement program is a program to address the flaws in a DoD Component's internal controls over contractor payments discovered during the course of implementing a recovery audit program or other control activities over contractor payments.

220205. Payment Errors. The recovery audit may identify errors resulting from duplicate payments; errors on invoices or financing requests; failure to reduce payments by applicable sales discounts, cash discounts, rebates, merchandise credits, or other allowances; payments for items not received; and mathematical or other errors in determining payment amounts and executing payments.

220206. Prepayment Reviews. These refer to manual or automated reviews conducted prior to payment to identify and prevent improper payments from being disbursed.

220207. Recovery Audit. A recovery audit is a post-payment review and analysis (by internal government resources or external contractor resources) to assure the integrity of the of the DoD Component's books, supporting documents, and other available information supporting its payments that is specifically designed to identify overpayments to contractors that are due to payment errors. It is not an audit in the traditional sense. Rather, it is a control activity designed to assure the integrity of the contract payments, and, as such, is a management function and responsibility. Results from recovery audits are also used to correct and recover improper payments, and to prevent future improper payments.

220208. Recovery Audit Contingency Contract. This term describes a contract for recovery audit services in which the recovery audit contractor is paid a portion of the amount recovered. The amount the contractor is paid, generally a percentage of the recoveries, is based on the amount actually collected contingent upon the evidence discovered and reported by the recovery audit contractor to the appropriate agency official.

220209. Recovery Audit Program Activities. A recovery audit program is a DoD Component's overall plan for the most cost-effective performance of recovery activities. The head of the DoD Component will determine the manner and nature of recovery activities that are expected to yield the most cost-effective recovery audit program for the component. In

addition, the recovery audit program must include a management improvement program as defined in paragraph 220204, and further discussed in section 2213 of this chapter. Other examples of recovery audit program activities include:

- A. Formulation and application of documentation policies
- B. Pre-payment reviews
- C. Contract audits

### 2203 DoD RECOVERY AUDIT PROGRAM

★ 220301. DoD's recovery audit program consists of prepayment reviews, documentation policies, contract audits and recovery audits. To ensure only properly-certified commercial payments are made, the Department's policy requires that certifications be based on information within proper documentation (invoice, receiving report and contract). The DFAS also performs various manual and automated prevalidation checks of vouchers certified for payment prior to payment based on payment amount, payment type to help prevent improper payments. In addition, DFAS identifies improper contractor payments based on overpayments made on previous invoices detected in the current pay cycle, overpayments discovered during the contract reconciliation process and payments to the incorrect vendor, as well as various post-payment reviews. Also, the Defense Contract Audit Agency (DCAA) conducts post-award contract audits for the Department.

### 2204 REQUIRED ANNUAL PLAN SUBMISSION

★ 220401. All Components that annually enter into contracts in excess of \$500 million statutory threshold must submit a recovery activity and auditing plan each year for use during the upcoming fiscal year to Office of the Under Secretary of Defense OUSD(C), Accounting and Finance Policy (AFP) Directorate by August 31st. At a minimum, this plan must include the estimated total dollar amount of contractor payments for both the current and the upcoming fiscal year, any additional recovery activities or recovery audits the Component plans to use on top of the current DoD Recovery Audit Program in section 2203 above, the dollar amount of payments the Component plans to review using these additional recovery activities or recovery audits, what entity will perform the recovery audit (internal, external, or contractor resources), the proposed methodology, and the period of review. In addition, should the Component Head determine recovery activities or audits are not cost-effective for certain categories of contracts, as further described in section 2206, the justification must be provided in this plan.

220402. Components not meeting the \$500 million threshold must also provide the annual August 31 submission to OUSD(C)/AFP but need only to provide the estimate of contractor payments for the current fiscal year and for the upcoming fiscal year.

2205 REQUIRED REPORTING

★ 220501. DoD Components and DFAS must report annually on their recovery activities and audits. Components must consult with the DFAS Directorate for Standards & Compliance (S&C), Postpay Review and Analysis Office (JJO) at 8899 E. 56th. St., Indianapolis, IN 46249 to ensure proper coverage of improper payments and recovery actions in order to prevent duplicate reporting. Components must inform OUSD(C)/AFP, and also report in their Agency Financial Report (AFR) submission, if suspension or limitation occurs in the Component monitoring/oversight activities. In order to meet the AFR reporting schedule, fiscal year-end reporting for recovery audit programs is due not later than the 10<sup>th</sup> business day in September, which is the same reporting requirement under the Improper Payments Information Act (IPIA), as specified in Volume 4, Chapter 14 of this Regulation.

220502. In accordance with OMB Circular A-136, Financial Reporting Requirements, DFAS will report annually:

- A. A general description and evaluation of the steps taken to carry out cost-effective recovery activities and audits.
- B. The total cost of the DFAS' recovery activities and audits.
- C. The actual dollar amount of contractor payments reviewed by DFAS.
- D. The amounts identified for recovery by DFAS.
- E. The amounts actually recovered during the current fiscal year. Please note that DFAS must separate voluntary or unsolicited refund dollar amounts from improper payments identified through recovery audit activities and report the amounts separately.
- F. A corrective action plan that addresses and links back directly to each root cause of error identified as closely as possible.
- G. A general description and evaluation of any management improvement program carried out pursuant to this guidance, as further described in section 2206.

220503. In accordance with OMB Circular A-136, Financial Reporting Requirements, for the additional recovery activities or recovery audits on top of the current DoD Recovery Audit Program conducted as part of or in addition to the Component's Recovery Auditing Plan submitted per section 2204 above, the Component's annual report to be included in the AFR must contain the following information. (NOTE: Components must consult with DFAS S&C to ensure proper coverage of improper payments and recovery actions in order to prevent duplicate reporting.)

- A. A general description and evaluation of the steps taken to carry out any additional recovery activities or recovery audits on top of the current DoD Recovery Audit Program conducted as part of or in addition to their Recovery Auditing Plan submitted per section

2204 above.

B. The total cost of the DoD Component's additional recovery activities or recovery audits on top of the current DoD Recovery Audit Program. Components must report separately the costs of the Component's recovery audit program activities (agency salaries and expenses), recovery audit contingency contract costs (amounts paid and payable to recovery audit contractors), and the cost of DFAS support, if applicable.

C. The total dollar amount of payments subject to review by these additional recovery activities or recovery audits.

D. The actual dollar amount of payments reviewed by these additional recovery activities or recovery audits.

E. Justification for any type or category of contract not reviewed by these additional recovery activities or recovery audits as further described in section 2206.

F. The amounts identified for recovery by these additional recovery activities or recovery audits.

G. The amounts actually recovered during the current fiscal year by these additional recovery activities or recovery audits. Please note that Components must separate voluntary or unsolicited refund dollar amounts from improper payments identified as a result of internal agency activities or from contracted recovery audit services and report the amounts separately.

H. A corrective action plan that addresses and links back directly to each root cause of error identified as closely as possible by these additional recovery activities or recovery audits.

I. A general description and evaluation of any management improvement program carried out pursuant to this guidance, as further described in paragraph 220203.

220504. Instances of potential fraudulent or suspected fraudulent erroneous payments discovered through recovery audits and recovery activities must be reported in accordance with [Volume 5, Chapter 6, Section 060203](#).

## 2206 SCOPE OF DoD COMPONENT RECOVERY ACTIVITIES AND AUDITS

220601. Subject to the exceptions in paragraph 220602, all classes of contracts and contract payments should be considered for recovery activities and recovery audits. DoD Components should review their different types of contracting categories and identify those classes of contracts that have a higher potential for payment errors. Once this risk assessment is performed, the Component must then determine the contract categories where the benefits would likely exceed the Component's costs of the recovery audits and recovery activities to ensure cost-effectiveness.

★ 220602. DoD Components may exclude classes of contracts and contract payments from recovery audit activities if the Component Head determines that recovery activities and audits are inappropriate or are not a cost-effective method for identifying and recovering erroneous payments. If the DoD Component Head elects to exclude a class of contract or certain contract payments from recovery activities or audits, then the justification for this exclusion must be included in their annual plan and annual report with justification as mentioned in sections 2204 and 2205.

220603. As discussed in OMB Circular A-136, the following are classes of contracts and contract payments which may be excluded from recovery activities or audits:

A. Cost-type contracts that have not been completed where payments are interim, provisional, or otherwise subject to further adjustment by the government in accordance with the terms and conditions of the contract.

B. Cost-type contracts that have been completed and subjected to a final contract audit; and, prior to final payment of the contractor's final voucher, if all prior interim payments made under the contract were accounted for and reconciled.

C. Other contracts that provide for contract financing payments or other payments which are interim, provisional, or otherwise subject to further adjustment by the government in accordance with the terms and conditions of the contract.

D. Recent payments (made less than 180 days prior to the review) may be excluded in order to allow the agency's normal post-payment processes to identify and correct any overpayments.

E. Other types of payments may be excluded from further review based on cost-effectiveness. For example, if the use of a pre-payment tool demonstrates that it is preventing most if not all duplicate payments for being made, then these payments may be excluded from the Components' recovery auditing effort.

220604. DoD Components must take steps to ensure that the implementation of their recovery activities and audits program do not result in duplicate audits of contractor records. In this regard, actions to follow up with contractors on potential overpayments identified through recovery audits of Component records do not constitute audits of contractor records; however, recovery audit activities should not duplicate other audits, to include other post-payment reviews or DCAA audits, of the same (contractor or DoD Component) records that specifically employ recovery audit techniques to identify and recover payment errors. At a minimum, DoD Components should coordinate with their Inspector General and other organizations with audit jurisdiction over their contracts to prevent such overlap.

## 2207 ROLE AND RESPONSIBILITIES OF THE RECOVERY AUDITING PROJECT OFFICER

★ 220701. Role. To facilitate compliance with OMB Circular A-123, Appendix C, the Deputy Chief Financial Officer established reporting responsibility for this function in the

AFP Directorate. This reporting function is part of the OUSD(C) oversight responsibility for DoD's annual Recovery Auditing Act reporting in the AFR.

220702. Responsibilities. The Recovery Auditing Project Officer is responsible for:

A. Reviewing the Components annual recovery auditing plan submissions as described in section 2204 to ensure completeness.

B. Reviewing the annual submission of Recovery Auditing reports described in section 2205 to ensure the reporting requirements are met.

C. Consolidation of the DoD Component level information into a summary level report for management review.

D. Preparation of Department wide recovery auditing results and related information for submission to OMB, publication in the AFR, and other required reporting.

2208 ROLE AND AUTHORITY OF THE OFFICES OF THE INSPECTOR GENERAL

220801. Nothing in this guidance should be construed to impair the authority of an Inspector General under the Inspector General Act of 1978 or any other law; however, because the recovery audit program required by this guidance is an integral part of DoD Component's internal control over contract payments, and therefore a management function, independence considerations would normally preclude the **OIG**, and other DoD Component external auditors from carrying out management's recovery audit program.

220802. The **OIG**, as well as other authorized auditors, are encouraged to assess the effectiveness of DoD Components' recovery audit programs as part of their internal control work on existing audits (e.g., the annual financial statement audit, or as a separate audit).

2209 SOURCES OF RECOVERY AUDITS

Recovery audits may be performed by employees of the DoD Components, by any other DoD Component, department or agency of the United States Government acting on behalf of the DoD Component, or by **private sector** contractors performing recovery audit services under contracts awarded by the DoD Component.

2210 RECOVERY AUDIT SERVICES PERFORMED BY CONTRACTORS

★ 221001. When Components have determined that using external post-payment recovery audit contractors (i.e. recovery audit contingency contract) is the most cost-effective plan, these private sector firms may, with the consent of the employing DoD Component, communicate with the Component's contractors for the purpose of verifying the validity of potential payment errors they have identified. **In addition, to avoid confusion with established accounts receivable/debt management process, Components must work with the DFAS S&C,**

Accounting Mission Area, Accounts Receivable Office (JJA) at 8899 E. 56th. St., Indianapolis, IN 46249 in the decision-making process as to allowing direct communication with the Component's contractors.

221002. In addition to identifying and documenting specific overpayments resulting from payment errors, recovery audit contractors should also analyze the reasons why payment errors occurred and, where appropriate, recommend cost-effective controls to prevent such overpayments in the future. The results of such analysis and related recommendations should be considered by the DoD Component as part of its management improvement program. These submissions **must** be timely and cover a period not to exceed 12 months. The DoD Component should provide such information to DFAS, the DoDIG, and where applicable, the Inspector General of the Military Service, hereafter referred to as their respective Offices of the Inspector General (OIG).

221003. Contracts entered into by DoD Components to obtain recovery audit services from the private sector are limited to contingency contracts that pay the contractor an amount equal to a **negotiated** percentage of the total amount collected by the United States **for valid claims of overpayment**.

2201004. In addition to provisions that describe the scope of recovery audits (and any other provisions required by law, regulation, or DoD Component policy), any contract with a private-sector firm for recovery audit services **will** include contract provisions that prohibit the recovery audit contractor from:

A. **Requiring** production of any **additional** records or information **from** the DoD Component's contractors. Only duly authorized employees of the DoD Component can compel the production of information or records from the DoD Component's contractors, in accordance with applicable contract terms and DoD regulations.

B. Establishing or otherwise having a physical presence on the property or premises of any other DoD contractor for the purpose of performing the contract.

C. Acting as an agent for the Federal Government in the recovery of funds erroneously paid to contractors.

D. Using or sharing sensitive financial information with any individual or organization, whether associated with the Federal Government or not, that has not been released for use by the general public, except for the purpose of fulfilling the recovery audit contract.

E. Disclosing any information that identifies an individual, or reasonably can be used to identify an individual, for any purpose other than performing the recovery audit.

★ 221005. DoD Components will require the recovery audit contractor to take steps to safeguard the confidentiality of sensitive financial information that has not been released for use by the general public and any information that could be used to identify a person.

2211 RECOVERY COLLECTIONS ACTIVITY

Actual recovery collections' activity **must** be carried out by Federal employees. DoD Components **must** follow applicable laws and regulations governing collection of amounts owed to the Federal Government.

2212 DISPOSITION OF RECOVERED AMOUNTS

★ 221201. Amounts collected for payments made in error or overpayments made by a DoD Component that are recovered under a recovery audit program are appropriation refunds and **must** be credited as such, except as provided in 31 U.S.C. 3562, "Disposition of Recovered Funds.". Funds collected under a recovery audit program, less any amounts needed to make payments under the related contract(s), **shall** be available to the DoD Component for the following purposes:

A. To reimburse the actual expenses for the administration of the program incurred by the recovery audit activity. These expenses include the cost of providing government records, researching claims, and recovering amounts due the government, **and other types of technical assistance**. Components **must** track any DFAS support costs in order to allow for accurate reimbursement, when applicable.

B. To pay post payment recovery audit contractors.

221202. Except as provided in paragraph 221003, any amounts erroneously paid by a DoD Component that are recovered under a recovery audit program and not used to reimburse actual expenses for the administration of the program or pay recovery audit contractors under paragraph 221101 **shall** be credited to:

A. The specific year and appropriations/funds from which the erroneous payments were made, **shall** be merged with other amounts in those appropriations, and **shall** be available for the purposes and period for which such appropriations are available; or

B. The general fund of the Treasury as miscellaneous receipts when no such appropriations remain available.

221203. When required or authorized by other provisions of law, any funds remaining after reimbursing the actual expenses for the administration of the program and paying recovery audit contractors, **will** be credited to the nonappropriated fund instrumentality, revolving fund, working capital fund, trust fund, or other fund or account from which the erroneous payments were made. For example, a recovery audit contractor may identify an erroneous payment during its review of a Defense Agency's working capital fund. Upon recovery of the payment, the agency would use the proceeds recovered to reimburse the Department's administration expenses and pay the recovery audit contractor's contingency fee. The remaining balance, if any, would then be credited back to the agency's working capital fund.

221204. Contingency fee contracts **will** preclude any payment to the contractor performing recovery audit services until the recoveries are actually collected by the DoD

Component.

221205. All funds collected and all direct expenses incurred as part of the recovery audit program will be accounted for specifically. The identity of all funds recovered must be maintained as necessary to facilitate the crediting of recovered funds to the correct appropriations and identify applicable time limitations associated with the appropriated funds recovered.

### 2213 MANAGEMENT IMPROVEMENT PROGRAMS

★ 31 U.S.C. 3564 authorizes Federal agencies to implement management improvement programs to address problems that contribute directly to contractor payment errors and to improve the recovery of overpayments. Such programs must take the information gleaned from the recovery audit program, as well as other audits, reviews, or information that identify weaknesses in a DoD Component's internal controls, and ensure that actions are undertaken to improve the Component's internal controls governing contract payments. Root error cause analyses must be documented in a way that directly links to the corrective actions. This linkage provides for improved tracking of error reduction efforts. In addition, wherever applicable, strong pre-payment and/or preventative controls should be included in the Component's overall internal control environment, as these types of controls are the most cost-effective.

### 2214 GRANT PROGRAMS

DoD Components whose grant programs fund significant contract activity by grant recipients may consider including contracts at the grant recipient level in their recovery audit program. DoD Components can engage contractors on a contingency basis to the extent otherwise authorized by law.