



DCMA

ACQUISITION INSIGHT  GLOBAL ENGAGEMENT

DPAP Class Deviation and DCAA New Sampling Plan for Low-Risk Final Indirect Rate Proposals

Presented By:

Ken Wells and Terri Workman

August 22, 2012



Objectives of this presentation are to:

- **Provide overview of DCAA's new plan to sample audit low-risk final indirect rate proposals**
- **Provide overview of DCAA adequacy review for low-risk proposals**
- **Explain the DPAP Class Deviation of Audit Requirements at FAR 4.804-5(a)(12), 42.705-1(b)(2), and 42.705-2(b)(2)(i)**
- **Review responsibilities of DCMA's ACOs in receipt of DCAA's Adequacy Review Memos**

- **All adequate incurred cost proposals exceeding \$250 million in auditable dollar volume (ADV) will be audited. The ADV relates to cost reimbursable contracts in the proposal.**
- **All other incurred cost proposals received and determined adequate will be assessed for high or low risk.**
- **All high-risk adequate incurred cost proposals will be audited.**



- **DCAA will group all low-risk adequate final indirect rate/ incurred cost proposals into strata by annual ADV**
- **“Low-risk” proposal criteria:**
 - a) DCAA has prior incurred cost audit experience (i.e., an incurred cost audit has been performed)**
 - b) No significant audit lead or other significant risk has been identified**
 - c) No prior significant questioned costs reported in the last year audited (Significant questioned costs are defined by strata in the next slide.)**

Significant questioned costs criteria:

Low-Risk Adequate Proposals by Auditable Dollar Volume	Amount of Previously Questioned Costs Classified as Significant
\$1M or less	\$15,000
\$1M to \$15 Million	\$25,000
\$15M to \$50 Million	\$55,000
\$50 Million to \$250 Million	\$100,000

- **DCAA will select a percentage for normal audit using a sampling plan as follows:**

Low-Risk Adequate Proposals by Auditable Dollar Volume	Low-Risk Sampling Percentages
\$1M or less	1%
\$1M to \$50 Million	5%
\$50 Million to \$100 Million	10%
\$100 Million to \$250 Million*	20%
Greater than \$250 Million	100%

* - See slide 7 for more details.

- **DCAA will select a percentage for normal audit using a sampling plan as follows:**
 - a) A mandatory* incurred cost audit will be performed once every three years for all proposals greater than \$100 million and less than \$250 million**

*** - If a contractor does not have a proposal selected for audit in the 20 percent sample (fourth strata in slide 6) in a three-year cycle, the FAO shall select a proposal for audit the third year after the last audit. This selection is in addition to those incurred cost proposals selected for audit in the 20 percent sample for any given Government fiscal year.**

b) If a contractor has more than one incurred cost proposal in the initial Low-Risk Pool, the following procedures will be used:

- i. If no proposals for the contractor are selected in the sample for audit, DCAA will close out all adequate incurred cost proposals that were in the sampling pool for that contractor using procedures found on slides 9-11**
- ii. If one or more proposals are selected in the sample for audit, DCAA will not disposition any of the other proposals for the contractor until the audit is completed**
- iii. If significant questioned costs are found, DCAA will audit all other incurred cost proposals that were in the sampling pool for the contractor using multi-year audit techniques**
- iv. If no significant questioned costs are found, DCAA will close out all other proposals that were in the sampling pool using procedures found on slides 9-11**

DCAA Adequacy Review Steps:

- 1. All incurred cost proposals will be evaluated upon receipt for adequacy in accordance with FAR 52.216-7 using the DCAA incurred cost proposal adequacy checklist.**
- 2. The adequacy evaluation includes rate and math computation checks as well as verify that the proposal was certified by its top management official to exclude unallowable costs.**



Overview - DCAA Non-Audit Review of Low-Risk Proposals

DEFENSE CONTRACT MANAGEMENT AGENCY

DCAA Adequacy Review Memo:

If no problems are identified, the auditor will issue a MEMORANDUM FOR CONTRACTING OFFICER, including the key steps performed from the adequacy checklist (see template example adequacy determination letter).





MEMORANDUM FOR CONTRACTING OFFICER

SUBJECT: Fiscal Year (FY) 20[XX] Adequate Incurred Cost Proposal for [Contractor Name, Address]

We received [Contractor Name]'s ([Contractor Acronym]) FY 20[XX] incurred cost proposal. Based on the results of our adequacy review, we consider the [Contractor Name]'s ([Contractor Acronym]) FY 20[XX] incurred cost proposal adequate in accordance with the requirements in FAR 52.216-7.

Our adequacy review did not disclose any significant audit leads. Our adequacy review included a mathematical verification and a determination that [Contractor Acronym]'s proposal was certified by its top management officials that it does not include unallowable costs (see Enclosure 1). Based on the overall assessment of low risk, we placed the [Contractor Name]'s ([Contractor Acronym]) FY 20[XX] incurred cost proposal in our sampling pool; it was not selected for audit.

The contractor's proposed final annual indirect cost rates for the fiscal year ended [insert contractor's fiscal year] are as follows:

Cost Center	Proposed Allocation Base		Proposed Rate
	Amount	Description	

The scope of the work performed by DCAA does not constitute an audit or attestation engagement under Generally Accepted Government Auditing Standards.

We discussed the results of our adequacy review with [name and title of contractor's representative] on [date].

We recommend that the contracting officer require the contractor to adjust its interim billings on all affected contracts to reflect the final proposed indirect cost rates and update the schedule of cumulative direct and indirect costs claimed and billed, in accordance with FAR 42.704(e), pending settlement of the proposed direct costs and indirect rates.

Please contact -----, Auditor, at -----, if you have questions concerning the [Contractor Acronym] incurred cost proposal or if you require additional information.

Sincerely,
Branch Manager

cc:
[Contractor Name]'s ([Contractor Acronym])

Two Methods for DCAA HQ to Notify DCMA HQ of Issuance of Adequacy Review Memos:

Method A. DMIS will provide a data field feed of "ASN_DISPO_CD" into our Overhead Negotiations eTool. A "N" code means: Assignment completed but no formal report issued .

- **Coding in DMIS -- N designates that the assignment was closed with a memorandum to the contracting officer providing the results of review ; e.g., incurred cost assignments closed (1) when unilateral determination is recommended and contracting officer determines total contract costs and (2) when proposal consider low risk and does not get selected for audit and performed an adequacy reviews, or desk reviews for low risk incurred cost proposals.**

Method B. For a short term period (maybe 12 months) DCAA HQ will provide DCMA HQ a monthly spreadsheet identifying adequacy review memos issued and the listing will provide the following data:

- 1. Contractor name**
- 2. Contractor CAGE number**
- 3. Contractor DUNS number**
- 4. DCAA assignment number**
- 5. Date DCAA adequacy memo was issued**
- 6. Fiscal year for final rates covered in the DCAA adequacy review memo (see item 4)**
- 7. Auditable dollar volume/value of the final indirect rate proposal associated with DCAA assignment**
- 8. DCAA field audit office (FAO) number (see item 4)**

- **DPAP has issued a Class Deviation of audit requirements at FAR 4.804-5(a)(12), 42.705-1(b)(2), and 42.705-2(b)(2)(i) in conjunction with the “DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals”**
- **DPAP Memo was issued on July 24, 2012**



JUL 24 2012

In reply refer to
DARS Tracking Number: 2012-O0013

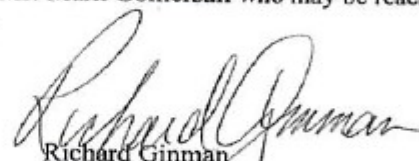
MEMORANDUM FOR COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION AND PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Class Deviation—DCAA Policy and Procedure for Sampling Low-Risk Incurred
Cost Proposals

Effective immediately, for the purposes of satisfying the audit requirements at FAR 4.804-5(a)(12), 42.705-1(b)(2), and 42.705-2(b)(2)(i), Department of Defense contracting officers shall continue to rely on either a DCAA audit report or a DCAA memorandum documenting that, based on a risk assessment and a proposal adequacy evaluation pursuant to FAR 42.705-1(b)(1)(iii), DCAA deemed the incurred cost proposal to be low-risk and did not select it for further audit in accordance with the attached DCAA Policy dated July 6, 2012.

This DCAA policy represents a continuation of a risk-based sampling process in use since 1994. It remains a prudent use of resources and contains adequate safeguards against unacceptable risk, while still ensuring that the contracting officer will have all the information needed for contract closeout.

This deviation remains in effect until it is incorporated into the FAR or DFARS or is otherwise rescinded. My point of contact is Mr. Mark Gomersall who may be reached at 571-372-6099, or mark.gomersall@osd.mil.


Richard Ginman
Director, Defense Procurement
and Acquisition Policy

- 1. ACO shall make sure he/she has a copy of the final indirect rate proposal covered in the DCAA adequacy memo. If necessary obtain a copy from DCAA or the contractor.**
- 2. If ACO perceives risks, the ACO can still request DCAA to perform an audit and not be restricted to only using the adequacy review memo. (ACO should communicate their concern with auditor during risk determination before auditor preparing adequacy review memo.)**
- 3. ACO may consider potential costs risks from:**
 - a)DCMA contract files**
 - b)other DCAA audits**
 - c)input from technical specialists**
 - d)input from PCOs**
 - e)input from subcontractors**



ACO Responsibilities After Receipt of DCAA Adequacy Review Memo

DEFENSE CONTRACT MANAGEMENT AGENCY

- 4. If the ACO perceives no risk, the ACO will use the DCAA adequacy review memo to settle final indirect rates for that fiscal year by accepting the proposed rates.**
- 5. The ACO can proceed to close out contracts if the ACO has settled all rates for all years of a contract's period of performance.**



INDIRECT COST RATE AGREEMENT

WITH

XXXXX LLC (FOR FISCAL YEAR ENDED DECEMBER 31, 2XXX)

INDIRECT COST RATE AGREEMENT (“Agreement”), dated as of **Month XX, 2XXX** between the Defense Contract Management Agency **CMO name** (“DCMA”) on behalf of the United States Government, and **XXXXX, LLC**.

1. This Agreement is entered into under the authority of Federal Acquisition Regulation (“FAR”) 42.705-1, “Final Indirect Cost Rates/Contracting Officer Determination Procedure,” FAR 52.216-7, “Allowable Cost and Payment,” FAR 52.216-16, “Incentive Price Revision-Firm Target,” FAR 52.216-17, “Incentive Price Revision-Successive Targets,” FAR 52.232-7, and “Payments under Time-and-Materials and Labor-Hour Contracts.”
2. The rates settled by this Agreement are set forth in the DCAA Adequacy Review memo of Attachment 1, which is incorporated by reference.
3. This Agreement applies to all Government flexibly-priced contracts and subcontracts performed by **XXXXX, LLC** during fiscal year **2XXX** including the contracts listed in Attachment 2, incorporated by reference.
4. The acceptance or disapproval of costs in this Agreement does not set a precedent for future rate settlement(s).
5. This Agreement does not change any costs or rate ceiling, or any specific allowance or disallowance, established by the terms and conditions of any contract to which this Agreement applies.
6. This Agreement does not constitute an obligation of funds. Recovery of costs pursuant to this Agreement shall be subject to the Limitation of Cost, Limitation of Funds and Limitation of Government Liability clauses contained in the individual contracts to which this Agreement applies.
7. If the terms of this Agreement conflict with the terms of a Government contract to which this Agreement applies, the terms of the contract shall take precedence.

8. Pursuant to FAR 42.704(e), **XXXX, LLC** should now adjust its interim billings on all affected contracts to reflect these agreed upon final indirect cost rates. Additionally, contracts containing FAR clause 52-216-7 has the following language at 52.216-7(d)(2)(v), “The Contractor shall update the billings on all contracts to reflect the final settled rates and update the schedule of cumulative direct and indirect costs claimed and billed, as required in paragraph (d)(2)(iii)(I) of this sections, within 60 days after settlement of final indirect cost rates.” Please provide the noted updated cumulative costs schedule within 60 days.

9. If **XXXX, LLC** has completed performance under the specified contracts for respective contracts, a credit voucher submittal and assignment and release documents for those contracts must be submitted no later than 120 days from the date on which this Agreement is executed. **XXXXX, LLC** acknowledges that if it fails to submit final invoices or final vouchers within this 120 day period, the ACO may unilaterally determine amounts due or | owed under the contracts in accordance with FAR 52.216-7(d)(6).

To evidence the parties’ agreement to this Agreement, they have executed and delivered it on the date set forth in the preamble.

Defense Contract Management Agency, **CMO Name**

Signature: _____

Printed Name: 1 _____

Title: Administrative Contracting Officer

Date: _____

XXXXX, LLC

Signature: _____

Printed Name: _____

Title: **President**

Date: _____

Attachment 1

XXXXX, LLC

Final Negotiated/ACO Determined Indirect Rates

Fiscal Year Ended December 31, 2XXX

Cost Element	Contractor Proposal	Contractor Proposed Rate	Final Negotiated	Final Agreed Upon Rate
Fringe Pool(a)	\$	xx.x%	\$	xx.x%
Fringe Base	\$		\$	
Overhead Pool(b)	\$	xx.x%	\$	xx.x%
Overhead Base	\$		\$	
G&A Pool(c)	\$	x.xx%	\$	x.xx%
G&A Base	\$		\$	

Allocation Base Description

- (a) Direct labor dollars exclusive of overtime premium pay.
- (b) Direct labor dollars exclusive of overtime premium pay plus fringe costs applied to the direct labor dollars.
- (c) Total incurred cost exclusive of G&A expense.



Attachment 2

SCHEDULE OF FLEXIBLY PRICED CONTRACTS/SUBCONTRACTS FISCAL YEAR ENDED **DECEMBER 31, 2XXX**

- Agency: Department of the Army (US Army CECOM, ACQ Center)
- Prime Contract No: XXXXXXXX-XX-X-XXXXX*
- Subcontract No: XXXXXXX
- Prime Contract No: XXXXXX-07-C-XXXX
- Prime Contractor: XYZ Inc.

* Subject to the Penalties provided in FAR 42.709

- Agency: Department of the Navy (NAVAIR)
- Prime Contract No: XXXXXXXX-XX-X-XXXXX*
- Subcontract No: XXXXXXX
- Prime Contract No: XXXXXX-07-C-XXXX
- Prime Contractor: XYZ Inc.

* Subject to the Penalties provided in FAR 42.709

- **2.4.5. Contract Final Audit.** DCAA is authorized to perform a final audit of the contract in accordance with [FAR 52.216-7\(g\)](#) and [52.232-7\(f\)](#). DCAA examination of a final voucher.
- **Cumulative Allowable Cost Worksheet (CACWS):** DCMA Memo #11-446 recommends ACOs should encourage contractors to submit a CACWS with the annual indirect cost rate proposal for audit by DCAA and update it within a reasonable time after rate settlement. The cost information on the CACWS should be used to close our contract (if available)
- **FAR 52.216-7(d)(2)(v) Allowable Cost and Payment:** States the contractor shall update the billings on all contracts to reflect the final settled rates and update the schedule of cumulative direct and indirect costs claimed and billed, as required in paragraph (d)(2)(iii)(I) of this section, within 60 days after settlement of final indirect cost rates.

Steps to closeout contracts with Low Risk:

1. ACO ensures that the Contractor's rates have been settled for all years of performance.
2. ACO requests contractor submit Final Voucher within 120 days and follow-up after the time frame has expired.
3. Prior to approving final payment, the ACO shall review the final voucher is correct to include:
 - a) Ensure the "Z" is added to the final voucher
 - b) Contract obligation amount is correct and previous amounts have been billed
 - c) Total amount due on final voucher is correct
4. ACO ensures the withholding, if any, is released
5. ACO will issue a deobligation modification for any funds determined to be excess
6. Remaining funds are left on contract due to price variance, rounding or cost underrun, the ACO Notebook will be annotated with a remark that the \$XX.xx (Amount of Remaining Funds) are remaining. When the final voucher is processed for payment, this annotation enables MOCAS to use the Q-Final process, automatically clear the remaining funds and proceed with closing the contract.
7. ACO will submit final voucher to DFAS for payment if all steps are complete; if final voucher is incorrect follow-up with contractor to correct any errors and continue with the process then submit to DFAS for payment.

- Review of Final Vouchers - Memorandum issued by HQ AQ to CMOs states that a new strategy may be used to have Price/Cost Analyst review final vouchers if contracts are determined to be low risk. The criteria is:
 - A CACWS has not been prepared.
 - No risk factors are present
 - Subcontract costs have been settled
 - Cognizant Contracting Officer
 - has determined the applicable business systems are approved or deficiencies do not impact the final voucher, to include accounting & purchasing.
 - Not identified unsettled disallowances, outstanding legal actions, open insurance claim, defective pricing issues, ASBCA cases, or other unresolved items affecting the contract.
 - All indirect rates or Quick Closeout rates are established for all years covered by the period of performance.

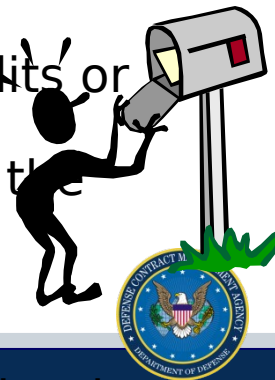
Final Voucher Package

In accordance with FAR 42.705(b), the Contractor shall submit a completion invoice or voucher within 120 days after settlement of final indirect cost rates for all years of performance on a physically complete contract.

- The completion invoice or voucher is also known as the final voucher.
- The final voucher must reflect settled amounts and rates.
- The ACO may authorize, in writing, an extension to the 120 day requirement.

The Allowable Cost and Payment Clause (FAR 52.216-7) and Payments Under Time and Materials and Labor Hour Contracts Clause (FAR 52.232-7) requires the Contractor to execute and deliver -

- An assignment to the Government of refunds, rebates, credits or other amounts properly allocable to costs for which the Contractor has been reimbursed by the Government under the contract.
- A release discharging the Government, its officers, agents, and employees from all liabilities, obligations and claims arising from or under the contract.



Final Voucher Package

The functional specialist shall review the final voucher package to ensure all closing documents have been obtained, are in order, and are properly executed.

- Promptly contact the Contractor if required documents are missing or are improperly completed.
- When required, ensure DCAA has received a copy of the final voucher package.
- If DCAA has established a Cumulative Allowable Cost Worksheet (CACWS), the ACO should use the CACWS to determine the allowable costs instead of requesting DCAA evaluate the final voucher.

Prior to approving final payment, if any, the ACO shall review final voucher, to include -

- Contract obligated amount
- Previous amounts billed
- Total amount due on final voucher
- Fee withholding, if any, identified and correct
- Identification of excess funds
- A "**Z**" is added to the end of the voucher number



Upon completion of all administrative contract closeout actions, the ACO shall approve and forward the final voucher to DFAS Columbus for certification and payment.

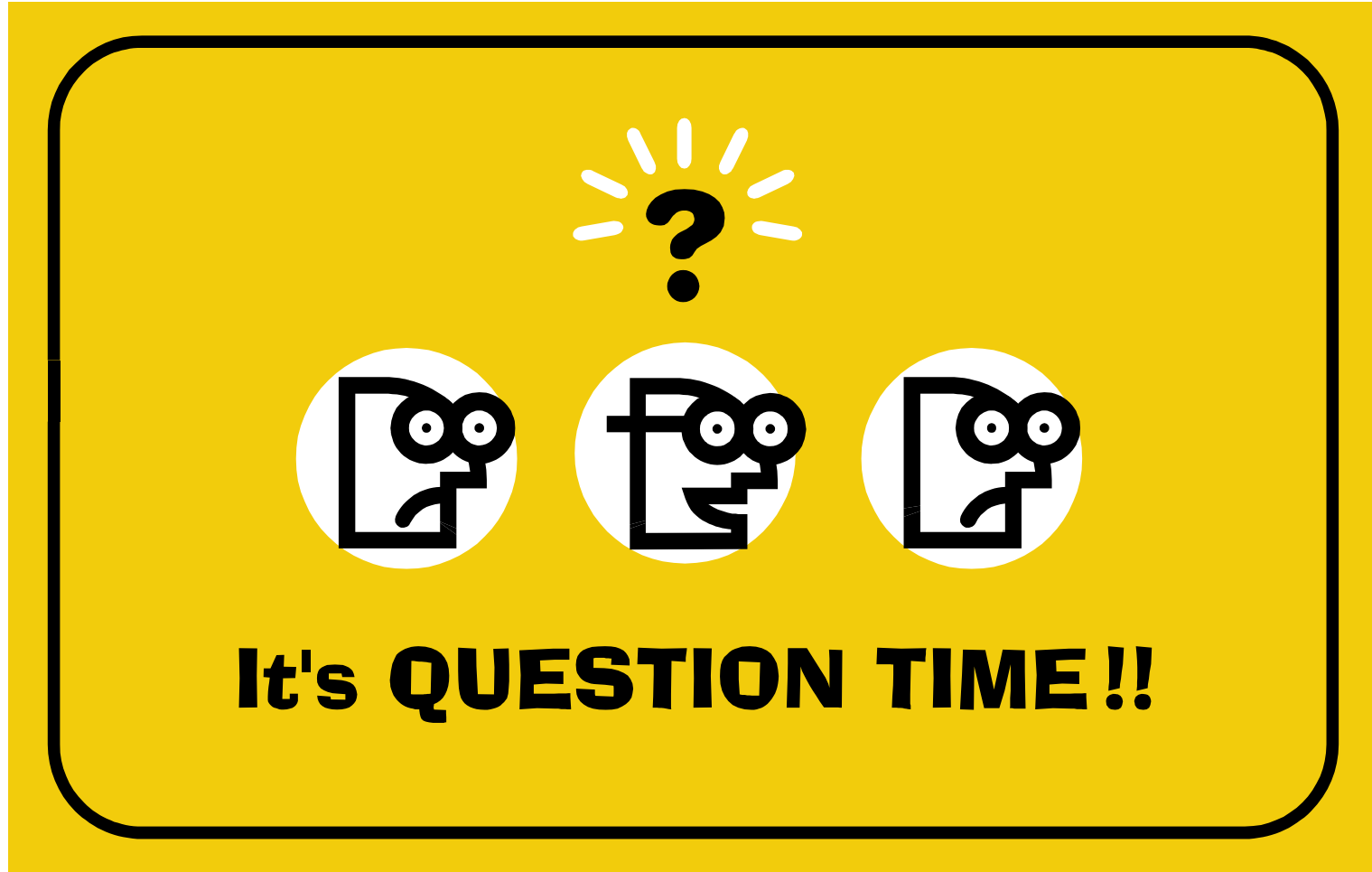
- **If the contract unliquidated balance does not equal \$0.00, the ACO must review contract funds and determine the reason funds remain.**
- **Remaining funds may be due to price rounding or cost underruns where contract performance has been completed and the Contractor paid in full.**
- **For contracts administered in MOCAS, before submitting the final voucher to DFAS for payment, the functional specialist shall annotate the ACO Notebook with a remark indicating the funds are remaining.**
 - For example, *“\$1,283.38 funds are remaining funds.”*
 - When the final voucher is processed for payment, DFAS will see the ACO’s remark regarding excess funds and will automatically clear the remaining funds, allowing the contract to move to Section 5 and then to Section 8. This is referred to as the Q-Final process.
 - When funds are systematically removed using the Q-Final process, remaining funds are returned to the U.S. Treasury.
 - Some PCOs may ask the ACO to remove remaining funds by contract



- **The functional specialist should monitor the final voucher to ensure that payment has been made to the Contractor and remaining funds removed. For contracts administered in MOCAS -**
 - A contract completion notice (electronic version of the DD Form 1594, Contract Completion Statement) will be issued to the buying activity, based upon final payment.
 - The contract will move to Section 5 upon final payment and then to Section 8 if no issues exist.
- **Document the DD Form 1597 and file all final closeout documents in the EDW contract file.**
- **EDW is designed to automatically close contracts based on data retrieved from MOCAS and the IDB-IA and place them in electronic records management. The EDW record will be held for retention and disposed in accordance with DoD records management procedures.**



*Remember, the FAR allows **36 months** to accomplish all closeout actions on cost reimbursable contracts.*



It's QUESTION TIME!!