



IN REPLY REFER TO

DEFENSE CONTRACT AUDIT AGENCY
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PPD 730.5.35.1

February 11, 2016
16-PPD-004(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
ASSISTANT DIRECTORS, HQ, DCAA**

SUBJECT: Updated Audit Guidance on the Treatment of Overdue Indirect Rate Proposals

Headquarters Policy, once again, will furnish a memorandum to DCMA with a list of contractor fiscal years (CFYs) for which we have not received a final indirect rate proposal, and the Contracting Officer has not granted a valid extension. This year, this list will include all CFYs ending in 2014 or earlier (greater than 6 months overdue).

Actions in Calendar Year 2016

- **May 2016** – To ensure that DCMA is given proper notice of our intent to close individual assignments, audit teams will send a letter to the designated Contracting Officers in May 2016 notifying DCMA of our intent to close the overdue incurred cost submissions once they reach 12 months overdue. The 12-month overdue letter template is available on the intranet under 10100 OAG Incurred Cost Proposal – Twelve-Month Overdue Submission Letter to Contracting Officer. Audit teams should not close out any of the assignments in DMIS without proper coordination with DCMA.
- **June 2016** – Audit teams must close the assignments on the list on June 30, 2016, if DCMA Contracting Officers do not notify DCAA of any extensions or ongoing coordination that would warrant DCAA leaving the assignments open.

The procedures for closing the assignments in DMIS are as follows:

- a. “*N – Assignment Completed but No Formal Report Issued*” from the Assignment Disposition Code drop-down menu.
- b. “*U = Unilateral Memo*” from the Memo Type drop-down menu.
- c. Report “*ADV Dollars Gross*” and “*Findings/Decrement*” as zero.
- d. When a PNM is received, the FAO should record the net savings negotiated by the Contracting Officer.

If we receive the certified incurred cost submission after we close the assignment in DMIS, we will re-open the assignment, if requested.

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Providing Support to Unilaterally Establish Contract Costs

Whether to apply a unilateral cost decrement, and how much to apply, are judgments at the discretion of the Contracting Officer. Upon request, audit teams should provide support to assist the Contracting Officer with applying a unilateral contract cost decrement. Audit teams should provide the Contracting Officer with all information that is relevant to the contractor's delinquent CFY, including billing deficiencies, incurred cost audit experience, etc. Upon request, audit teams may offer for the ACO's consideration a calculated unilateral contract cost decrement based on relevant historical questioned costs.

As a last resort, Headquarters Policy is furnishing DCMA with a total contract cost decrement that the Contracting Officer may consider when no relevant history exists. The current rate, updated this year, is 16.4 percent, based on an Agency-wide analysis. We plan to re-assess the decrement rate again in three years.

Field Detachment Process

Policy will not report CFYs under Field Detachment (FD) responsibility. However, FD has a process in place to follow up on overdue indirect rate proposals.

Questions and Further Information

FAO personnel with questions on this subject should contact regional personnel. Regional personnel with questions should contact Policy Programs Division at (703) 767-2270 or e-mail at DCAA-PPD@dcaa.mil.

/Signed/
Donald J. McKenzie
Assistant Director
Policy and Plans

Enclosure:
Submissions Greater than Six Months Overdue

DISTRIBUTION: E