



DCAA

DEFENSE CONTRACT AUDIT AGENCY

Provisional Billing Rates

Further information is available in the Information for Contractors Manual under Enclosure 2

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Provisional Billing Rates

- Purpose of Provisional Billing Rates (PBRs)
- What are the procedures for establishing PBRs?
- When should we submit?
- What information should we provide?
- DCAA review
- Monitoring
- Common deficiencies
- Frequently asked questions



Purpose of PBRs

- One criterion for an adequate accounting system is that it provide for billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed and comply with contract terms. Interim payments on cost-type contracts are allowed as specified in the contract provisions.
- Reimbursement of indirect costs in these interim payments is generally made through provisional billing rates.
- Provisional Billing Rates are established to approximate the contractor's final year-end rates, as adjusted for any unallowable costs.
- Provisional Billing Rates are used for interim purposes until settlement is reached on the final indirect rates for the contractor's fiscal year.
- FAR 42.704-Billing Rates-provides procedures and guidance for establishing PBRs.



Procedures for Establishing Billing Rates

FAR 42.704(b)

The contracting officer or auditor shall establish PBRs on the basis of information resulting from recent review, previous rate audits or experience, or similar reliable data or experience of other contracting activities.

- When the contracting officer or auditor determines that the contract value does not warrant submission of a billing rate proposal, PBRs may be established by making appropriate adjustments from the prior year's indirect cost experience to eliminate unallowable and nonrecurring costs.
- Also, contractors may voluntarily submit a billing rate proposal to assist the responsible official in establishing rates (Preferred).
- It is important to discuss the requirements with the contracting officer or cognizant auditor.



Procedures for Submission

- Contractors submit provisional billing rates to its DCAA Office or Administrative Contracting Officer
- Electronic submissions are encouraged
- Provide in excel format on a CD or through e-mail

When Should We Submit?

- Prior to the beginning of the fiscal year (once budgets are complete) or when the established billing rates are no longer representative of final year end rates due to unforeseen events or circumstances.
- The PBRs should represent a 12-month period (the contractor's fiscal year).
- PBRs should be submitted at least annually
- Vouchers and progress payments can be returned if submitted without properly established billing rates.

What Should We Provide in a PBR Proposal?

- Proposed billing rate calculations (Pool and Base) with brief rationale
- Prior fiscal year (FY) pool and base
- Current FY to date pool and base
- Current FY budget pool and base, if available
- Comparative analysis with explanation of any significant differences

DCAA Review

- Some example procedures DCAA may perform include the following:
 - Compare proposed pool and base to prior year and year-to-date pool and bases.
 - Review trend of questioned costs in relevant incurred cost audits and consider an adjustment for unallowable expenses in calculating current year provisional billing rates.

Monitoring

- PBRs should be monitored:
 - Throughout the year
 - Immediately after year-end
 - Upon submission of the final indirect rate proposal
- PBRs may be adjusted by either party at any time to prevent substantial under or over payment – FAR 42.704(c).
- If PBRs are adjusted, the contractor should submit adjustment vouchers accordingly.

Common Deficiencies

- Failure to remove unallowable costs from the billing rate projections.
- Failure to adjust provisional billing rates based on actual experience:
 - Before year end, if there are known or reasonably anticipated significant variances.
 - After year end once actual rates, net of unallowable expenses, are calculated.

Frequently Asked Questions

- Do I submit the Provisional Billing Rate Proposal to the ACO or DCAA Office?
 - FAR 42.704 indicates the office responsible for final indirect cost rates also establishes provisional billing rates.
 - If final rates are ACO determined, submit to that office.
 - If final rates are audit determined, submit to local DCAA Office.



Frequently Asked Questions

- Can I use just use the most recent FY ended rates for provisional billing purposes?
 - No. However, the responsible official may establish the billing rates based on prior year history less unallowable costs.
 - If budgetary data is available, your proposed billing rates may be based on the budget less the estimated unallowable costs.
- Once provisional billing rates are established with DCAA or the ACO, do I need to submit proposed changes based on new information?
 - YES. The contractor should submit new proposed billing rates when known or reasonably anticipated significant variances have occurred.

