



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PPD 730.5.27.1

November 26, 2007
07-PPD-038(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Alert on Reporting Questioned Costs on Time-and-Materials (T&M)/
Labor-Hour (LH) Contracts

This memorandum is being issued to clarify guidance on reporting questioned labor costs relating to exceptions taken to labor hours billed/claimed on T&M and LH contracts when labor hours incurred are not in compliance with contract terms. Specifically, if an auditor's examination of incurred labor hours discloses that an employee does not meet the labor qualifications/requirements prescribed in the contract for the labor category billed, those hours and related billed/claimed amounts should be questioned in total.

On July 31, 2007, MRD 07-PPD-023, Subject: Audit Guidance on Time-and-Materials (T&M) and Labor Hour (LH) Contracts, was issued to provide guidance for T&M and LH contracts, based on clarifying revisions to FAR and DFARS, including clarification of payment procedures in FAR 52.232-7, *Payments Under Time-and-Materials and Labor-Hour Contracts* (Federal Acquisition Circular 2005-15, effective February 12, 2007). The guidance stated, in part, that auditors should ensure that claimed/billed direct labor effort meets the labor category qualifications specified in the contract.

When performing a review of contractor billings or claimed amounts under T&M or LH contracts, auditors should selectively evaluate billed/claimed direct labor hours to ensure that employees meet the labor category qualifications specified in the contract. If the auditor determines that an employee does not meet that labor category qualifications, that employee's labor hours and related billed/claimed amounts should be questioned in total. For example, if the auditor determines that a junior engineer is working and charging a T&M contract that calls for a senior engineer labor category, the auditor should identify the labor hours billed/claimed by the junior engineer and question those costs in total as unallowable. FAR 52.232-7(a)(3) was clarified to state:

...Labor hours incurred to perform tasks for which labor qualifications were specified in the contract will not be paid to the extent the work is performed by employees that do not meet the qualifications specified in the contract, unless specifically authorized by the Contracting Officer.

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This same guidance should be applied to contracts negotiated before February 12, 2007. Auditors should coordinate with the Administrative Contracting Officer to ensure that the contract requirements related to labor qualifications have not been modified.

If FAO personnel have any questions, they should contact regional personnel. Regional personnel with any questions should contact Policy Programs Division, at 703-767-2281.

/Signed/
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