



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
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IN REPLY REFER TO

PPD 730.5.45.1

October 9, 2008  
08-PPD-035(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**  
**HEADS OF PRINCIPAL STAFF ELEMENTS**

**SUBJECT: Audit Alert on Assessing Compensation Reasonableness When a Contractor Uses Compensation Consultants to Determine Executive Compensation**

Contractors frequently use compensation consultants to assess and establish executive compensation. It should be noted that these consultants may not be independent as they may perform other services for the contractor. Auditors should not rely on a contractor's outside pay consultant's determination on the reasonableness of employee executive compensation without performing a review of the consultant's survey data used in establishing the compensation. Based on the risk disclosed, auditors should perform an independent assessment using available survey data within DCAA.

Auditors should ensure contractor survey data used to support reasonableness determinations is based on reliable and unbiased surveys that are representative of the contractor's relevant market or industry. In most cases, no one survey is sufficient to determine the market rate of pay for all the contractor positions. A primary survey may be selected with secondary surveys used to corroborate the results of the primary survey. CAM 5-808.8c(2) provides guidance on evaluating compensation survey data. A compensation regional technical specialist may assist auditors in evaluating compensation survey data and determining compensation reasonableness. Regional offices have reliable external survey data available to assist auditors in their evaluations.

Auditors should contact their compensation field or regional technical specialist for assistance in evaluating executive compensation. If FAO personnel have any questions regarding this memorandum, they should contact regional personnel. Regional personnel with any questions should contact Policy Programs Division, at (703)-767-2270 or e-mail at [DCAA-PPD@dcaa.mil](mailto:DCAA-PPD@dcaa.mil).

/s/ Terry M. Schneider  
/for/ Kenneth J. Saccoccia  
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