



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAS 730.4.A.4

May 27, 2010
10-PAS-015(R)

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

SUBJECT: Guidance on Resolving Contract Audit Recommendations

On December 4, 2009, the Director of Defense Procurement and Acquisition Policy (DPAP) issued a DoD policy memorandum on resolving contract audit recommendations (Enclosure 1), which establishes a process for resolving disagreements between the auditor and contracting officer prior to contract negotiations. The DoD Policy places the responsibility upon the contracting officer to discuss significant disagreements with the DCAA audit position with the auditor prior to negotiations. For any significant disagreements that exist after these discussions, the contracting officer is required to document the discussion and the basis for the disagreement in the pre-negotiation objective and in a written communication to the auditor (e.g., an email confirming the discussion or a copy of the applicable portion of the pre-negotiation objective). DCAA's management may request that the DoD Component's management review the decision, but the request must occur within **three business days** of receiving the contracting officer's written decision. Therefore, it is imperative that upon receipt of the contracting officer's decision, the auditor immediately discuss the basis of disagreement with the Supervisory Auditor and FAO Manager to ascertain the need to elevate the issue.

While the DoD policy memorandum defines a significant disagreement in the context of audits of forward pricing proposals (i.e., when the contracting officer plans to sustain less than 75 percent of the DCAA questioned costs from a proposal valued at \$10 million or more) the policy also provides that the DCAA Director may elevate **any** disagreement that he believes requires the DPAP Director's attention (e.g. precedent setting or of high interest to the Department). Consistent with DCAA's current practices, DCAA should continue to elevate disagreements or significant issues up through the DoD Component's chain of command. Disagreements should always be resolved at the lowest levels possible; however, if resolution is not reached, significant disagreements may need to be elevated.

The process for elevating disagreements would begin with the FAO Manager discussing the basis for DCAA's disagreement with the contracting officer's management. If unresolved, the disagreement should continue to be elevated. Ultimately, the Regional Director should attempt to resolve the disagreement directly with the Component's Senior Executive or Flag Officer in the contracting officer's chain of command. If the disagreement remains unresolved, Regional Directors should elevate the disagreement to Headquarters, Policy, for resolution with senior leaders in the Department. We will update CAM Sections 1-403.3 and 1-403.4 to reflect the current guidance.

May 27, 2010
10-PAS-015(R)

PAS 730.4.A.4

SUBJECT: Implementation of Guidance on Resolving Contract Audit Recommendations

The Military Services, DCMA and DLA have established policies and procedures implementing the DPAP policy memorandum. DCMA has established Contract Management Board of Review Procedures which substantively implements the DPAP policy memorandum. DCAA supports the DCMA Board of Review procedures which are available at <http://guidebook.dcma.mil/282/index.cfm>. The Navy policies are available at <https://acquisition.navy.mil/rda/content/view/full/7040>, and the Air Force policies are available at <http://ww3.safaq.hq.af.mil/shared/media/document/AFD-100322-023.pdf>. The Army and DLA policies have not yet been posted on the internet; therefore, we have included them as Enclosures 2 and 3 respectively.

FAO personnel should direct questions regarding this memorandum to their regional offices. Regional offices should direct their questions to Auditing Standards Division, at (703) 767-3274 or by e-mail at DCAA-PAS@dcaa.mil.

/s/

Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosures: 3
a/s

DISTRIBUTION: C



OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

DEC -4 2009

MEMORANDUM FOR COMMANDER, U.S SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, U.S. TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
ASSISTANT SECRETARY OF THE ARMY
(ACQUISITION, LOGISTICS AND TECHNOLOGY)
ASSISTANT SECRETARY OF THE NAVY
ASN, (RESEARCH, DEVELOPMENT AND
ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE
(ACQUISITION)
DIRECTORS, DEFENSE AGENCIES
DIRECTORS, DOD FIELD ACTIVITIES

SUBJECT: Resolving Contract Audit Recommendations

The Department fully supports contracting officers making informed decisions within the scope of their authority utilizing the advice of specialists in audit, law, engineering, etc., as the case may be, to ensure that our contracts fulfill the requirements of our warfighters while obtaining the best business deal for the taxpayers.

This memorandum sets forth DoD's policy for resolving disagreements when the contracting officer does not include significant audit report recommendations (excluding unsupported costs) from the Defense Contract Audit Agency (DCAA) in establishing his/her pre-negotiation objective. For the purposes of this memorandum, a significant disagreement is when the contracting officer in the pre-negotiation objective plans to sustain less than 75 percent of the total recommended questioned costs in a DCAA audit report on a contractor proposal valued at \$10 million or more.

It is essential that contracting officers attempt to resolve significant issues brought to their attention by DCAA audit reports. When significant disagreements occur, the contracting officer shall discuss the basis of the disagreement with the auditor prior to negotiations. The contracting officer shall document that discussion, and the basis for disagreement in the pre-negotiation objective (or pre-business clearance) and in a written communication to the auditor prior to commencing negotiations, e.g., an email confirming the discussion or a copy of the applicable portion of pre-negotiation objective. Approval of the pre-negotiation objective confirms that the discussion with DCAA and the basis for disagreement is adequately documented and supported. Once the negotiation objective is approved, the contracting officer may proceed with negotiations.

If after the discussion between the contracting officer and the auditor, the contract auditor does not agree with the contracting officer, DCAA's management may request

that the DoD Component's management review the contracting officer's decision. DCAA's request for the Component's higher-level review shall occur within three business days after receiving the contracting officer's written communication.

If the differences cannot ultimately be resolved at the Component's highest management level, the Director, DCAA, may contact me to discuss the disagreement. If the DCAA Director believes that I have not adequately addressed the matter, the disagreement may finally be elevated to the Under Secretaries for Defense, Acquisition, Technology, Logistics and Comptroller.

Each DoD Component shall implement procedures for this policy. The procedures will provide DCAA's Senior Executives access to refer significant disagreements for higher-level review to a Component Senior Executive (i.e., SES) or General Officer within the contracting officer's chain of command, prior to reaching my office for review. The component procedures shall also provide that the contracting officer will document the disposition of the higher-level review of disagreements in a memorandum for the contract file.

Notwithstanding the above, the DCAA Director may contact me on any disagreement with audit recommendations which he believes requires my attention, (e.g., precedent setting or of high interest to the Department).

The Military Services, the Defense Contract Management Agency, and the Defense Logistics Agency, will coordinate with Headquarters DCAA on the Components' procedures and provide DCAA with a copy of the final procedures within 60 days of this memorandum. The purpose of this coordination is to provide both parties an understanding of the persons or positions in each organization who will be involved in the higher-level review process. The remaining DoD Components will provide their proposed procedures to my point of contact below within 60 days. My office will coordinate those proposed procedures with DCAA Headquarters.

It is neither expected nor necessary that the contracting officer and the contract auditor agree on every issue. They have different, yet complementary, roles in the process. It is expected that the auditor and contracting officer will work together, recognizing that it is the contracting officer's ultimate responsibility to determine fair and reasonable contract values.

A Defense Acquisition Regulation (DAR) Council Case will be established within the next 30 days to revise the Defense Federal Acquisition Regulations Supplement (DFARS) or its companion document, Procedures, Guidance, and Information (PGI), to incorporate this policy memorandum. The point of contact for this action is Mr. Clyde Wray at 703-602-8387 or clyde.wray@osd.mil.



Shay D. Assad
Director, Defense Procurement
and Acquisition Policy



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

SAAL-PP

APR 23 2010

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Resolving Contract Audit Recommendations

1. On December 4, 2009, the Director, Defense Procurement and Acquisition Policy (DPAP) issued a memorandum (enclosure) establishing Department of Defense (DoD) policy on Resolving Contract Audit Recommendations. It requires the Department of the Army (DA) to develop policies and procedures for resolving disagreements when the Contracting Officer does not include significant audit report recommendations (excluding unsupported costs) from the Defense Contract Audit Agency (DCAA) in establishing his/her pre-negotiation objective.
2. This memorandum sets forth DA's policy for resolving significant disagreements when the Contracting Officer does not concur with DCAA recommendations while establishing a pre-negotiation objective. A significant disagreement exists when the contracting officer in the pre-negotiation objective plans to sustain less than 75 percent of the total recommended questioned cost in a DCAA audit report on a contractor proposal valued at \$10 million or more. Should a significant disagreement arise, the Contracting Officer shall discuss the disagreement with the DCAA auditor and attempt to resolve the disagreement prior to contract negotiations. The Contracting Officer shall document the results of the discussion with the DCAA auditor, to include the basis for the disagreement outlining specific elements of costs questioned, in the pre-negotiation objective or pre-negotiation business clearance and in a written communication (e.g. an e-mail) to the auditor prior to commencing negotiations. Approval of the pre-negotiation objective indicates the discussion with the DCAA auditor is adequately documented and supported and negotiations may take place.
3. Should DCAA request a higher-level review of the Contracting Officer's decision, the Contracting Officer will advise his/her management and provide the name, title and telephone number of the higher-level review authority to the DCAA auditor. The initial higher-level review authority is the Director of Contracting (DOC). If the significant disagreement still exists after discussions with the DOC, the matter is elevated to the Principal Assistant Responsible for Contracting (PARC) for resolution. Should a significant disagreement still exist, the Head of Contracting Activity is contacted for further resolution. The Deputy Assistant Secretary of the Army (Procurement) is notified if the DCAA elevates the significant disagreement to the Director, DPAP. The Contracting Officer shall document the disposition of the higher-level review(s) in a memorandum for the contract file.

SAAL-PP

SUBJECT: Resolving Contract Audit Recommendations

4. Notwithstanding the above, the DCAA Director may contact the Director of DPAP on any disagreement with audit recommendations he believes requires further consideration (e.g. precedent setting or high interest to the Department).
5. The point of contact for this matter is Ms. Brenda Jackson-Sewell, (703) 604-7105, or e-mail: brenda.jacksonsewell@conus.army.mil.

Encl


Edward M. Harrington
Deputy Assistant Secretary of
the Army (Procurement)
COL, USA
ADASAC(P)

DISTRIBUTION:

PRINCIPAL ASSISTANTS RESPONSIBLE FOR CONTRACTING:

U.S. ARMY AVIATION AND MISSILE LIFE CYCLE MANAGEMENT COMMAND
U.S. ARMY COMMUNICATIONS-ELECTRONICS LIFE CYCLE MANAGEMENT
COMMAND
U.S. ARMY CONTRACTING COMMAND, EXPEDITIONARY CONTRACTING
COMMAND, 408th CONTRACTING SUPPORT BRIGADE
U.S. ARMY CONTRACTING COMMAND, EXPEDITIONARY CONTRACTING
COMMAND, 409th CONTRACTING SUPPORT BRIGADE
U.S. ARMY CONTRACTING COMMAND, EXPEDITIONARY CONTRACTING
COMMAND, 410th CONTRACTING SUPPORT BRIGADE
U.S. ARMY CONTRACTING COMMAND, EXPEDITIONARY CONTRACTING
COMMAND, 411th CONTRACTING SUPPORT BRIGADE
U.S. ARMY CONTRACTING COMMAND, EXPEDITIONARY CONTRACTING
COMMAND, 413th CONTRACTING SUPPORT BRIGADE
U.S. ARMY CONTRACTING COMMAND, OFFICE OF THE PROGRAM
MANAGER, SAUDI ARABIAN NATIONAL GUARD
U.S. ARMY CONTRACTING COMMAND, MISSION AND INSTALLATION
CONTRACTING COMMAND
U.S. ARMY CONTRACTING COMMAND, NATIONAL CAPITAL REGION
CONTRACTING CENTER
U.S. ARMY CORPS OF ENGINEERS, HEADQUARTERS
U.S. ARMY CORPS OF ENGINEERS, ATLANTA
U.S. ARMY CORPS OF ENGINEERS, DALLAS
U.S. ARMY CORPS OF ENGINEERS, WINCHESTER
U.S. ARMY INTELLIGENCE AND SECURITY COMMAND
U.S. ARMY JOINT MUNITIONS AND LETHALITY LIFE CYCLE MANAGEMENT
COMMAND
U.S. ARMY MEDICAL COMMAND
U.S. ARMY MEDICAL RESEARCH AND MATERIEL COMMAND
U.S. ARMY PROGRAM EXECUTIVE OFFICE FOR SIMULATION, TRAINING, AND
INSTRUMENTATION

SAAL-PP

SUBJECT: Resolving Contract Audit Recommendations

U.S. ARMY RESEARCH, DEVELOPMENT AND ENGINEERING COMMAND
U.S. ARMY SPACE AND MISSILE DEFENSE COMMAND
U.S. ARMY SUSTAINMENT COMMAND
U.S. ARMY TANK-AUTOMOTIVE AND ARMAMENTS LIFE CYCLE MANAGEMENT
COMMAND
JOINT CONTRACTING COMMAND, IRAQ/AFGHANISTAN, PARC-AFGHANISTAN
JOINT CONTRACTING COMMAND, IRAQ/AFGHANISTAN, PARC-IRAQ
MILITARY SURFACE DEPLOYMENT AND DISTRIBUTION COMMAND
NATIONAL GUARD BUREAU JOINT CONTRACTING COMMAND

HEADS OF CONTRACTING ACTIVITY:

U.S. ARMY CONTRACTING COMMAND
U.S. ARMY AVIATION AND MISSILE COMMAND LIFE CYCLE MANAGEMENT
COMMAND
U.S. ARMY SUSTAINMENT COMMAND
U.S. ARMY COMMUNICATIONS-ELECTRONICS COMMAND LIFE CYCLE
MANAGEMENT COMMAND
U.S. ARMY JOINT MUNITIONS AND LETHALITY LIFE CYCLE MANAGEMENT
COMMAND
U.S. ARMY RESEARCH, DEVELOPMENT AND ENGINEERING COMMAND
U.S. ARMY TANK-AUTOMOTIVE AND ARMAMENTS COMMAND LIFE CYCLE
MANAGEMENT COMMAND
U.S. ARMY JOINT CONTRACTING COMMAND IRAQ/AFGHANISTAN
U.S. ARMY CONTRACTING COMMAND MISSION AND INSTALLATION
CONTRACTING COMMAND
U.S. ARMY CONTRACTING COMMAND EXPEDITIONARY CONTRACTING
COMMAND
U.S. ARMY SPACE AND MISSILE DEFENSE COMMAND
U.S. ARMY MEDICAL COMMAND
U.S. ARMY MEDICAL RESEARCH AND MATERIEL COMMAND
U.S. ARMY CORPS OF ENGINEERS
NATIONAL GUARD BUREAU
U.S. ARMY INTELLIGENCE AND SECURITY COMMAND
U.S. ARMY PROGRAM EXECUTIVE OFFICE FOR SIMULATION, TRAINING AND
INSTRUMENTATION



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO J-7

MAR 17 2010

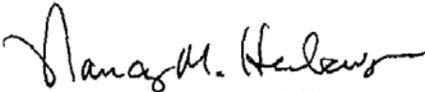
MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY (DCAA)

SUBJECT: Procedures for Resolving Contract Audit Recommendations

The Defense Logistics Agency (DLA) respectfully submits the following DLA policy and procedures in response to a Defense Procurement and Acquisition Policy (DPAP) memorandum dated December 4th, 2009, directing Department of Defense Components to develop procedures for the resolution and documentation of significant disagreements between contracting officers and DCAA auditors.

Please do not hesitate to contact my office directly to discuss any unresolved audit results (e.g. precedent setting or high interest to the Department) prior to referral to the Director of DPAP.

My point of contact for this action is Ms. Kim Cornett, (703) 767-1428, DSN 427-1428, or email: kimberly.cornett@dla.mil.


NANCY M. HEIMBAUGH
Component Acquisition Executive

Attachment

Enclosure 3
Page 1 of 4



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO

J-71
PROCLTR 10-12

MAR 17 2010

MEMORANDUM FOR PROCLTR DISTRIBUTION LIST

SUBJECT: Establishment of Procedures for Resolving Contract Audit Recommendations,
DLAD PGI 15-406-1(b)(92)(v) and DLAD PGI 15.406-1

The purpose of this PROCLTR is to implement the Defense Procurement and Acquisition Policy memorandum dated December 4th, 2009 (attached) and establish procedures for DLA contracting officers to follow when the prenegotiation objective sustains less than 75 percent of the total recommended questioned costs in a DCAA audit report on a contractor proposal valued at \$10 million or more.

Notwithstanding the enclosed procedures, the DCAA Director may contact the Director of DPAP on any disagreement with audit recommendations that he believes requires further consideration (e.g. precedent setting or high interest to the Department). In the event that the DCAA Director decides to contact the DPAP Director regarding a disagreement relating to a DLA audit, DCAA will notify the DLA J-7 Director that the issue has been elevated.

This PROCLTR is effective immediately and is incorporated into the DLAD, as attached. Questions regarding the DLAD coverage can be addressed to Ms. Kimberly Cornett or kimberly.comett@dla.mil.

NANCY M. HEIMBAUGH
Component Acquisition Executive

Attachments

Enclosure 3
Page 2 of 4

Contracting by Negotiation

Subpart 15.4 -- Contract Pricing

15.406 Documentation

15.406-1(b) Prenegotiation objectives

(92) * * * * *

(v) When the contracting officer has a "significant disagreement" with the auditor's findings (defined as one in which the contracting officer's prenegotiation objective plans to sustain less than 75 percent of the total audit recommended questioned costs on a proposal valued at \$10 million or more), the procedures at PGI 15.406-1 will be followed.

DLAD PGI

Contracting by Negotiation

Subpart 15.4 - Contract Pricing

15.406-1

15.406-1 Prenegotiation Objectives.

Procedures for Resolving Audit Disagreements

1. Applicability: Contract Proposals valued at \$10 million or more.
2. Definition: Significant Disagreement – The situation that occurs when the contracting officer's prenegotiation objective plans to sustain less than 75 percent of the total recommended questioned costs in the DCAA audit report. This does not include costs classified as "unsupported" in the audit report.
3. Contracting officers are charged with making informed decisions utilizing the advice of specialists in audit, law, engineering, etc., to ensure we fulfill the requirements of our warfighters while obtaining the best business deal for the taxpayers. While the contracting officer and the auditor may not necessarily agree on every issue, it is expected that they will work together recognizing that it is the contracting officer's ultimate responsibility to determine fair and

reasonable contract value. This PGI establishes the DLA procedures for attempting to resolve significant disagreements in accordance with DoD policy.

4. Resolution of Contract Audit Disagreements

- a. Prior to establishing the prenegotiation objectives, the contracting officer shall discuss the results of the audit report with the auditor to attempt to resolve disagreements.
- b. The contracting officer shall document the results of the discussion with the auditor and the reasons for disagreement with specific elements of costs questioned by DCAA.
- c. Approval of the prenegotiation objectives memorandum in accordance with local procedures confirms that the discussion with DCAA and the contracting officer's basis for deviating from the audit recommendations has been adequately documented and supported.
- d. If the approved prenegotiation objectives memorandum does not plan to sustain at least 75 percent of the total audit recommended questioned costs, the contracting officer shall notify the auditor in writing (email notification is acceptable). The notification will require DCAA to advise within 3 days if a higher level management review is requested. If DCAA confirms (in writing) to the contracting officer that a higher level review is requested, the contracting officer will provide the contact information of the higher level review authority (the HCA) and begin planning for discussions. Concurrent with providing the higher level review information to the auditor, the contracting officer shall notify their HCA through their chain of command that a higher level review has been requested by DCAA (activities for which J-7 is the HCA shall notify the J-73 Division Chief who notify the J-7 Director). After all parties have been notified of the request for a higher level review, it is within the discretion of the contracting officer and his/her chain of command to decide whether negotiations should proceed or be suspended pending final resolution of the disagreement.
- e. Concurrent with notification to their HCA, DESC, DSCC, DSCP and DSCR contracting officers shall also notify the J-73 Division Chief of the request for higher level review. J-73 will track the frequency and disposition of audit resolution issues.
- f. At the HCA level, a review will attempt to determine if the auditor's and the contracting officer's positions can be reconciled. The contracting officer shall document the disposition of the higher level review of the disagreement(s) in a memorandum for the contract file.
- g. If the HCA is other than J-7 and is unable to resolve the differences with DCAA, the approving authority shall notify J-73 with copies of the contracting officer's documentation of the issue. In turn, J-73 shall inform the Director of Acquisition Management, J-7, of the unresolved audit and the possibility of discussions with the DCAA Director prior to any DCAA referral to the Director, Defense Procurement and Acquisition Policy.