



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PAC 730.3.B.01/2011-02

February 4, 2011
11-PAC-002(R)

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

SUBJECT: Audit Guidance on Cost Impact Resulting from CAS 405 Noncompliance Related to Dependent Health Benefit Costs

SUMMARY

A cost impact for any CAS 405 noncompliance due to the contractor's failure to exclude unallowable health benefit costs associated with ineligible dependents from its pricing and incurred cost proposals should include all affected years, including years that have had the indirect rates settled (closed years). If the contractor's cost impact submission does not include both open and closed years, the FAO should consider it an inadequate submission for audit. If the contractor refuses to submit an adequate cost impact, auditors should develop a reasonable estimate of the cost impact (a ROM) and recommend that the Contracting Officer pursue the remedies outlined in FAR 30.605(i) and 30.604(i).

BACKGROUND

Recent DCAA audits have disclosed that contractors have paid a significant number of medical cost claims for the employees' family members who did not qualify as dependents under the contractor's medical/health care plan. The reasons for dependent/spousal ineligibility include: (1) dependents reached the age where they no longer qualified as a dependent, (2) spouses were divorced, or (3) dependents were covered under another plan as well as the contractor's plan, and the employee failed to notify the contractor of the double coverage as the contractor's plan required an adjusted premium for double coverage. As a result of the failure to remove the ineligible dependents from the plan coverage, increased insurance costs were incurred and claimed by the contractor. The unallowable costs resulted from the contractor's failure to implement adequate procedures to ensure that the dependent's health plan benefits eligibility information was current, accurate, and periodically verified. In some cases, contractors have hired third party consultants to assess the impact of ineligible dependents on its health insurance costs. Some of our audits have disclosed that the consultants' reviews have not been adequate in assessing the total impact. Contractors that fail to identify and exclude health benefit costs associated with ineligible dependents are in noncompliance with FAR 31.201-6 and CAS 405, if applicable.

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GUIDANCE

In MRD 09-PSP-016(R), dated August 4, 2009, we provided guidance stating that auditors should question costs of health insurance premiums and claims for ineligible dependents as expressly unallowable costs, in accordance with FAR 31.205-6(m)(1), Compensation for Personal Services, Fringe Benefits. The MRD also recommended that contractors that fail to exclude these costs from Government contracts should be cited for a CAS 405 noncompliance, when applicable. A cost impact for any CAS 405 noncompliance due to the contractor's failure to exclude unallowable health benefit costs associated with ineligible dependents from its pricing and incurred cost proposals should include all affected years, including years that have had the indirect rates settled (closed years). FAR 30.605(h), *Calculating cost impacts*, states:

The cost impact calculation shall –

- (1) Include all affected CAS-covered contracts and subcontracts regardless of their status (*i.e.* open or closed) or the Fiscal Year in which the costs are incurred (*i.e.* whether or not the final indirect cost rates have been established).

To be compliant with FAR 30.605(h)(1), the contractor's cost impact calculation must include all years that had the noncompliant practice, including years that have already been audited and/or closed. Accordingly, the FAO should advise the Administrative Contracting Officer (ACO) that he or she require the contractor to perform an analysis of all years in which the contractor incurred health benefit costs that may have included ineligible dependents to determine the expressly unallowable costs and the increased cost paid by the Government. If the contractor does not perform this type of analysis, the FAO should consider the cost impact proposal inadequate for audit. If the contractor refuses to provide an adequate cost impact proposal, the FAO should develop an estimate of the cost impact (a ROM) and recommend that the ACO pursue the remedies outlined in FAR 30.605(i) and 30.604(i).

CONCLUDING REMARKS

FAO personnel having questions on this subject should contact regional personnel. Regional personnel having questions should contact Accounting and Cost Principles Division, at (703) 767-3250 or e-mail: DCAA-PAC@dcaa.mil.

/Signed/

Kenneth J. Saccoccia
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