



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

730.4.A.10/2010 001

June 23, 2011
11-PSP-009(R)

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

SUBJECT: Audit Guidance on Subcontract Proposals Submitted by Governmental Facilities
Operated by DoD

SUMMARY

This memorandum is being issued to provide audit guidance related to proposals that include subcontract proposals submitted by governmental facilities operated by DoD. DCAA audit reports should not opine on proposed subcontract costs for Government operated facilities.

Defense contractors sometimes utilize governmental facilities operated by DoD such as depots as a subcontractor because the depot has specialized skills and expertise for performing specific types of effort (e.g., maintenance, testing, etc.). These governmental facilities are governed by the Department of Defense Financial Management Regulation (DoD FMR). Proposed costs submitted by these governmental facilities are based on prices established under the DoD FMR, and meet the exception for providing certified cost or pricing data as stated in FAR 15.403-1(c)(2), Prices Set by Law or Regulation. Additionally, the DCAA mission does not authorize audits of DoD organizations such as Government operated depots.

BACKGROUND

The DoD operates 20 major depot maintenance activities that possess some of the most extensive repair, testing, and remanufacturing capabilities. In order to assist depots to operate at full capacity, Congress enacted legislation that allows them to enter into partnership agreements with commercial and defense-sector firms. Under the direct sales partnering agreement, depots provide services to industry as a subcontractor under the authority of various Title 10 sections.

Depots, as all governmental facilities operated by DoD, are governed by the DoD FMR which is issued under the authority of DoD Instruction 7000.14, "DoD Financial Management Policy and Procedures." The DoD FMR is under the oversight and control of the DoD Comptroller. The DoD FMR requires all business areas, including governmental facilities, to set their prices based on full cost recovery to break even. Prices are established through the budget process. Approved stabilized billing rates are established to remain fixed throughout the year for DoD customers, although an exception allows sales prices to be tailored based on the most recent actual and projected costs to minimize potential DoD operating losses or gains.

SUBJECT: Audit Guidance on Subcontract Proposals Submitted by Governmental Facilities Operated by DoD

GUIDANCE

Costs included in a contractor's proposal from a governmental facility, operated by the Government, are set by regulation because these facilities' prices are established by procedures in the DoD FMR, thereby meeting the exception for providing certified cost or pricing data as provided in FAR 15.403-1(c)(2), Prices Set by law or Regulation. Although the contracting officer still has to determine a fair and reasonable price for the subcontracted effort, a DCAA audit is not appropriate as it is not in the DCAA mission to audit a government operated facility.

When performing an audit of a contractor's price proposal that includes proposed costs by a governmental facility, operated by the Government, the FAO should coordinate with the contracting officer. The FAO should advise the contracting officer that DCAA's mission does not authorize audits of other DoD organizations and that the report opinion will not address the proposed costs by a government operated facility contained in the contractor's proposal.

This guidance is NOT applicable to proposals from government owned, but contractor operated (GOCO) facilities as proposals from GOCO facilities would generally represent contractor costs, not government costs.

CONCLUDING REMARKS

FAO personnel having questions on this subject should contact regional personnel. Regional personnel having questions should contact Pricing and Special Projects Division, at (703) 767-3290 or e-mail DCAA-PSP@dcaa.mil.

/s/

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Distribution: C