



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

IN REPLY REFER TO

PPD 730.5.35.10

February 3, 2014
14-PPD-002(R)

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

SUBJECT: Treatment of Delinquent Final Indirect Rate Proposals

Effective immediately, audit teams should discontinue the practice of sending late notification letters to the contractor and contracting officer, except for the 30-day overdue notification letter. Audit teams will continue to:

- Educate contractors of their contractual requirement to submit Final Indirect Rate Proposals as part of the audit team's on-going interaction with the contractor;
- Support contracting officer, as necessary, to obtain adequate final indirect rate proposals by meeting with contractors; and
- When the contracting officer cannot obtain a proposal, support the contracting officer in calculating a unilateral contract cost decrement.

Headquarters Policy is Coordinating Directly with DCMA Headquarters

Headquarters Policy is actively coordinating with DCMA Headquarters to identify and take appropriate actions on significantly overdue final indirect rate proposals. Policy will issue a letter to DCMA discussing planned actions for 2014, as well as actions that will occur annually starting in January 2015, as discussed in detail below:

Actions in Calendar Year 2014

Headquarters Policy will furnish a memorandum to DCMA with a list of contractor fiscal years (CFYs) ending in 2011 or earlier for which we have not received a final indirect rate proposal (> 18 months overdue). DCMA plans to either:

- Obtain an adequate proposal (e.g., within 30 days), or
- Unilaterally establish contract costs as authorized in FAR 42.703-2(c)(1) and FAR 42.705(c)(1).

The memorandum also asks that DCMA Contracting Officers coordinate with the local FAO once they determine the appropriate action. FAOs should not close out any of the assignments in DMIS without proper coordination with DCMA during 2014.

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Later this year, Policy will coordinate with various FAOs to determine a tenable method for identifying and including proposals that DCAA considers inadequate for audit on the annual list furnished to the responsible contract administrative agencies.

Actions in January 2015 and Annually Thereafter

Annually, starting in January 2015, Headquarters Policy will furnish DCMA with a list of CFYs that either are **more than six months overdue without valid extension, or considered inadequate for audit**. In conjunction with issuing this memo to DCMA, Policy will issue instructions to the field regarding the disposition of the assignments in DMIS. This guidance will state that FAOs should close the assignments on a specified date if they have not received a submission, or been informed by DCMA of their intent to allow an extension or obtain an adequate proposal.

CFYs Not Administered by DCMA

Agencies other than DCMA are responsible for administering approximately half of the delinquent proposals. In the coming months, Headquarters Policy will provide each administrative agency with its respective list of CFYs for which we have not received a proposal, and request that they obtain the proposal, or unilaterally establish contract costs. Policy will provide additional information to the field once this coordination takes place.

Field Detachment Process

Policy will not report CFYs under Field Detachment (FD) responsibility. However, FD and Policy will work together to determine if a similar process is viable for their customers, and issue any necessary guidance.

A Single Late Notification Letter

Audit teams must monitor the timely receipt of final indirect rate proposals. When a proposal is 30-days late without valid extension, the team should immediately prepare a 30-day overdue request letter and send it directly to the contractor with a copy to the contracting officer. We have revised the letter to notify the contractor that this is the only late notice the company will receive from DCAA. Operations will continue to support the automated generation of this letter. A sample 30-day letter also is available on the intranet. Audit teams are no longer responsible for sending the following notifications:

- Reminder letter to the contractor prior to end of CFY
- Three month overdue memo to the ACO

- Five month overdue letter to the contractor, and
- Unilateral recommendation letter to ACO when relevant history does not exist (6 months overdue)

Providing Support to Unilaterally Establish Contract Costs

Whether to apply a unilateral cost decrement, and how much to apply, are judgments at the discretion of the contracting officer. Upon request, audit teams should provide support to assist the contracting officer with applying a unilateral contract cost decrement.

Relevant History Exists

Audit teams should provide the contracting officer with all information that is relevant to the contractor's delinquent CFY, including billing deficiencies and incurred cost audit experience, etc. Upon request, audit teams may offer for the ACO's consideration a calculated unilateral contract cost decrement based on relevant historical questioned costs.

Relevant History Does Not Exist

Headquarters Policy is furnishing DCMA with a total contract cost decrement that the contracting officer may consider as a last resort. This rate is currently at 16.2%, based on an Agency-wide analysis (supersedes the former 20% recommendation). We will furnish DCMA with an update of the decrement of last resort, annually.

Importance of DMIS Accuracy

Since the new process is highly dependent on DMIS reporting, it is important that you maintain accurate DMIS information. Audit teams must:

- Create timely incurred cost inventory records
- Update the incurred cost proposal status code immediately upon proposal receipt (i.e., Change from "X" to "P")
- Assess proposal adequacy as soon as practical after proposal receipt, and revise the incurred cost proposal status code accordingly

Questions and Further Information

We are in the process of updating CAM 6-707.2 to reflect the changes in this memorandum. FAO personnel with questions on this subject should contact regional personnel.

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Regional personnel with questions should contact Policy Programs Division at (703) 767-2270 or e-mail at dcaa-ppd@dcaa.mil.

/Signed/

Donald J. McKenzie
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