



**DEFENSE CONTRACT AUDIT AGENCY  
DEPARTMENT OF DEFENSE  
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FORT BELVOIR, VA 22060-6219**

IN REPLY REFER TO

PPD 730.5.5.1

November 24, 2014  
14-PPD-020(R)

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

**SUBJECT: Audit Alert Regarding Sampling Low-Risk Incurred Cost Proposals at Nonprofit Organizations**

Effective immediately, nonprofit organizations will be included in the low-risk sampling process based on the guidance in this memorandum. Therefore, FAOs should perform a low risk assessment of all adequate final indirect rate proposals for nonprofit organizations using the revised policies and procedures and the current Risk Determination tool as established in MRD 13-PPD-021(R), dated October 29, 2013.

**Background**

In September 2012, Policy issued guidance pertaining to the revised policies and procedures for sampling low-risk incurred cost proposals (MRD 12-PPD-023(R), dated September 6, 2012). The guidance discussed the Defense Procurement and Acquisition Policy (DPAP) Class Deviation that allows the Department of Defense contracting officers to rely on either a DCAA audit report or a DCAA memorandum to satisfy the audit requirements in FAR. The revised policy was coordinated with Defense Contract Management Agency (DCMA). Since the date of that memorandum, coordination with many of our other customers has taken place, and they have begun participating in the low-risk sampling process. Most recently, the Office of Naval Research (ONR) has agreed to use the low-risk sampling process for the nonprofit organizations under their cognizance.

**Nonprofits Automatically Eligible for Sampling**

If the adequate indirect cost proposal for the nonprofit organization meets the low risk criteria, and falls under the cognizance of DCMA, NASA or ONR, they are eligible to participate in the low-risk sampling process as follows:

- If Defense Contract Management Agency (DCMA) or National Aeronautics and Space Administration (NASA) is responsible for administering the indirect rates at the nonprofit organization, FAOs should include the indirect rate proposal in the low-risk sampling universe, and if not selected for audit, prepare a low risk memo for the Contracting Officer, and attach the rate agreement letter.

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- If the Office of Naval Research (ONR) is assigned as the cognizant agency for indirect rates at the nonprofit organization, FAOs should include the indirect rate proposal in the low-risk sampling universe, and if not selected for audit, prepare a low risk memo for the Contracting Officer. The FAO should **not** prepare a rate agreement letter as ONR will remain responsible for finalizing the rates upon receipt of our low risk memo.

### **Other Nonprofits**

Operations is in the process of coordinating DCAA's low-risk sampling process with other customers, both in the "for profit" and nonprofit environment. However, in the interim, FAOs should coordinate with contracting officers at agencies other than DCMA, NASA, and ONR to determine if they would like the nonprofit organizations under their cognizance to be included in the low-risk sampling process. FAOs should include the adequate nonprofit final indirect rate proposals in the low-risk sampling process only if the contracting officers have agreed to participate in the low risk sampling.

### **Educational Institutions and Single Audits**

ONR did not agree to use the low-risk sampling process at educational institutions under their cognizance. Therefore, this policy does not apply to our incurred cost audits of educational institutions. Additionally, the low risk process is not to be used at contractor locations where we are currently performing Single Audits (formerly known as A-133 audits).

### **Questions and Further Information**

FAOs with questions regarding this memorandum should contact their regional offices. Regions with questions should contact Policy Programs Division at (703) 767-3234 or via e-mail at DCAA-PPD@dcaa.mil.

/s/ Jennifer L. Quinones  
/for/ Donald J. McKenzie  
Assistant Director  
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