



IN REPLY REFER TO

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

PPD 730.5.35.1

January 7, 2016
16-PPD-001(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
ASSISTANT DIRECTORS, HQ, DCAA**

**SUBJECT: Audit Guidance on the Impact of the National Defense Authorization Act on
DCAA's Audit Support to Non-Defense Agencies**

What do we need to know?

Section 893 of the 2016 National Defense Authorization Act (NDAA) states DCAA may not provide audit support for non-Defense Agencies unless the Secretary of Defense certifies that the backlog for incurred cost audits is less than 18 months of incurred cost inventory. As of now, DCAA does not meet the requirement. In accordance with the attached Legal opinion (Enclosure 1), the following guidance discusses the parameters on what DCAA can and cannot perform for our reimbursable customers.

What services can we continue to provide to reimbursable customers?

The NDAA prohibits DCAA from providing audit support to non-Defense Agencies/reimbursable customers. Our legal team has advised that we can continue to provide services that fall outside audit support. The following are the types of effort that we have determined are permissible to support reimbursable customers:

- Negotiation support,
- Litigation support,
- Investigative support (performed by OIS), and
- Non-audit services (e.g., requests for specific cost/rate information).

How do we handle assignments that are 100% reimbursable?

DCAA will cease work on any in-process assignments that are 100% reimbursable and will no longer accept an engagement to perform these types of audits. FAOs will formally coordinate with reimbursable customers to ensure they understand the impact of the NDAA on our ability to provide audit support. In addition, FAOs should notify the individual reimbursable customers using the template in Enclosure 2. Given the extenuating circumstances of this change, we are permitting an exception to our normal guidance of not releasing in-process working papers. Upon request, we will provide access to our in-process working papers to the successor auditor if the audit team believes they will serve a useful purpose. If the audit team believes the working papers do not serve a useful purpose and the reimbursable customer insists on gaining access, the audit team should elevate the issue to the RAM prior to releasing the working papers. However, when releasing these in-process working papers, audit teams must ensure a cover letter is included (Enclosure 3), and each page of the working papers is marked as DRAFT. It is critical the cover letter include the following:

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- an explanation that we cannot perform any further audit work due to the 2016 NDAA
- the purpose the non-DoD agency is requesting access
- a statement that the working paper package is in-process, and has not been management approved, and that we are not making any representations as to the sufficiency or appropriateness of the incomplete working papers for the requestors purpose
- a statement that the working papers may contain contractor propriety data and the requestor should consider the restrictions of 18 U.S.C. 93 §1905 and, if the information is contractor bid, proposal or source selection information, 41 U.S.C 21 § 2102

How do we handle assignments that have a mix of DoD and reimbursable contracts?

In many cases, a contractor's proposal/submission contains a mix of DoD contracts with non-DoD/reimbursable contracts, and DoD is the cognizant federal agency for establishing the indirect rates. Therefore, DCAA will be responsible for determining/recommending rates for the contractor's fiscal year(s) and must perform an audit. The audit team cannot segregate the DoD indirect costs from the non-DoD indirect costs as indirect costs, by their very nature, are not allocable to a specific contract or effort. Therefore, DCAA's audit of the indirect costs must include an audit of both the DoD and the non-DoD indirect costs. Since non-DoD indirect costs cannot be excluded, DCAA can continue to audit the indirect costs as they have in the past to determine the indirect rates.

The direct costs contained within a contractor's proposal/submission can be segregated by contract. However, in some cases, the amount of effort to include the audit of direct costs for non-DoD contracts adds very little extra additional effort (it is *de minimis*). In cases where including the non-DoD contracts in the universe results in *de minimis* **additional** effort, the audit can continue as it has in the past, including those non-DoD contracts in the audit. However, if the audit team determines that testing of direct costs for non-DoD agencies would require more than a *de minimis* amount of additional work, the audit team should not include the non-DoD direct costs in their audit (see examples in the "Frequently Asked Questions" included as Enclosure 4 for illustrations on making these determinations and further information on handling in-process assignments).

If we remove direct costs for non-DoD agencies from our audit scope, what more do we need to know?

If an audit team determines the amount of additional work to include testing of direct costs on non-DoD contracts is more than *de minimis*, the audit team should ensure the scope of their audit report appropriately reflects the exclusion of those direct costs. Additionally, the audit team must perform steps during their audit to ensure that the total base is accurate and complete (reconciliation to books and records, and all costs are appropriately included). Generally, this should be enough to allow the audit team to opine on the indirect rates. However, if the audit team believes the amount of non-DoD work affects their ability to opine on the indirect rates, the audit report opinion should be appropriately modified (qualified or disclaimer). Additionally, if we exclude the direct costs for non-DoD contracts from the scope of our audit,

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our typical method for calculating the reimbursable effort will not be appropriate. An example of calculating reimbursable hours when we exclude the direct costs for non-DoD contracts from our audit scope is included in Enclosure 4, "Frequently Asked Questions."

When we cease work for a non-DoD customer, can we discuss with them the status of the audit and the work we have done?

The management team can and should reach out to their non-DoD customers regarding any in-process assignments where we have ceased work. The discussion should include the reason why we must withdraw from the audit and the status of the audit pertaining to the non-DoD contracts.

When do we do Incurred Cost Proposal Adequacy Assessments?

An adequacy assessment should be done for an incurred cost proposal when it is received, unless it is 100% reimbursable, or it has been determined that an agency other than DoD is the cognizant Federal Agency responsible for establishing the rates.

Questions and Further Information

We are providing as Enclosure 4 to this memorandum, "Frequently Asked Questions," to help you with your decisions in this area. FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Policy Programs Division at (703).767.2270 or e-mail at DCAA-PPD@dcaa.mil. Additionally, questions on reimbursable billings may be directed to Workload Analysis Division at (703) 767-2236 or e-mail at DCAA-OWD@dcaa.mil.

/Signed/

Donald J. McKenzie
Assistant Director
Policy and Plans

Enclosures:

a/s

DISTRIBUTION: E



INTEROFFICE MEMORANDUM

DL 240

December 30, 2015

TO: D, DD

FROM: DL

SUBJECT: What Work Can DCAA Continue to Perform for Reimbursable Customers Pursuant to Section 893 of the 2016 NDAA?

You have requested a legal opinion concerning the effects of the 2016 National Defense Authorization Act on the work DCAA performs for its reimbursable customers. I conclude that DCAA may continue to perform non-audit type services for reimbursable customers. I also conclude that during FY 2016, if DCAA is the cognizant audit organization for the contractor, DCAA may continue to perform incurred cost audits involving mixed costs of DoD and non-Defense agencies on a reimbursable basis provide that DCAA limit testing of direct costs of non-Defense agencies to those with a *de minimis* effect on the cost of the audit.

A. What Services can DCAA Continue to Perform?

Both Paragraphs (a)(1) and (a)(2) of Section 893 condition the restrictions contained in those paragraphs to providing “audit support.” I have found no other legislation that defines what Congress intends by the term “audit support.” Clearly, the DCAA charter suggests that DCAA performs more services than just audits. The charter identifies “accounting and financial advisory services regarding contracts and subcontracts” and differentiates those services from “audits.” Moreover, Chapter 2 of the Generally Accepted Government Auditing Standards (GAGAS) suggests that non-audit services may be provided by audit organizations. GAGAS para. 2.12. The fact that Congress limited the restrictions to the performance of “audit support” rather than include other types of services that DCAA provides indicates that Congress intended to only restrict DCAA from performing audits for non-defense agencies. Therefore, I conclude that DCAA may continue to perform other forms of services to non-Defense agencies and may continue to be reimbursed for those services.

I will leave it to DCAA management to define what falls outside the confines of “audit support.” However, the following are examples of reimbursable non-audit services that could be performed:

- Negotiation Support
- Litigation Support
- Investigative Support
- Other Non-audit services

SUBJECT: What Work Can DCAA Continue to Perform for Reimbursable Customers Pursuant to Section 893 of the 2016 NDAA?

B. Mixed or Blended Incurred Cost Audits

The primary purpose of incurred cost submission (otherwise known as an indirect rate proposal) is to establish final indirect rates for a fiscal year based upon actual costs incurred by the contractor. An indirect cost, by its very nature, is a cost that cannot be attributed to a single cost objective. Therefore the cost is included in pools and allocated over a base of direct costs to determine a rate that is charged to all contracts. If DCAA is the cognizant audit organization for the incurred cost audit and the contractor has performed work on contracts for both DoD and non-Defense agencies, it is impossible to segregate the indirect costs for each agency and audit only those indirect costs attributable to DoD contracts. The audit, by the very nature of the costs being audited, must include all indirect costs for all contracts.

Section 893 of the NDAA does not preclude DCAA from being reimbursed by non-Defense agencies for audit support performed during FY 2016. It only precludes DCAA from performing audit support for non-Defense agencies. Since work performed on incurred cost audits determines indirect rates for DoD, performance of the audits is pursuant to its DoD mission and therefore DCAA must continue to perform the audit. However, while performing the DoD audit, DCAA cannot segregate out the indirect costs of the non-Defense agencies and must audit the entirety of the indirect rate cost pools. The non-Defense agencies therefore benefit to the same degree as they did before the NDAA and it is therefore appropriate to charge the non-Defense agency for the work in the same manner as it was charged before the enactment of the restriction. However, paragraph (a)(2) of section 893 will reduce the DoD funding after September 30, 2016 for every dollar received for this type of audit support.

Unlike indirect costs, direct costs can be segregated by contract. While I understand that the additional costs of testing direct costs of non-Defense agency contracts may add little extra costs to DCAA's overall audit costs (it is *de minimis*), if the auditor determines that testing direct costs of a non-Defense agency would add more than a *de minimis* amount of costs to the overall audit, the auditor should not test the direct costs of that agency. The extra hours of audit support in testing those costs would be contrary to the provisions in the NDAA. I will leave it to the audit staff to determine when testing the direct costs for non-Defense agencies would add more than a *de minimis* amount of costs to the overall audit.

Conclusion

DCAA may perform services for non-Defense agencies that do not amount to an audit, including negotiation support, litigation support, investigation support, and other forms of non-audit services that the agency may identify. DCAA shall continue to charge reimbursable customers (even after September 30, 2016) for these services.

Incurred cost audits that include both DoD contracts and non-Defense agency contracts (mixed or Blended Incurred Cost Audits) may continue to be performed if DCAA is the cognizant audit organization and until September 30, 2016, DCAA may continue to be reimbursed at the rates agreed to pursuant to the MOU with that agency. After September 30, 2016, DCAA will lose DoD funding for each dollar it receives from non-Defense agencies for

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SUBJECT: What Work Can DCAA Continue to Perform for Reimbursable Customers Pursuant to Section 893 of the 2016 NDAA?

this type of audit support. The audit staff shall not test direct costs of non-Defense agencies unless they determine the amount of additional cost to perform the testing will be *de minimis*.

Please contact me at 571-338-3122 if you have any questions.

/s/

David C. Hoffman
Acting General Counsel



IN REPLY REFER TO

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

[Insert Date]

[Non-DoD Agency]
[Address]
[City, State Zip Code]

SUBJECT: Effect of the 2016 National Defense Authorization Act, Section 893 on DCAA's Audit Support to Non-Defense Agencies

Dear Sir or Madam:

Section 893 of the 2016 National Defense Authorization Act (NDAA) states DCAA may not provide audit support for non-Defense Agencies unless the Secretary of Defense certifies that the backlog for incurred cost audits is less than 18 months of incurred cost inventory. As of now, DCAA does not meet that requirement. This letter is to inform you of the effect the 2016 NDAA Section 893 has upon DCAA audit services to non-DoD agencies effective with the signing of the Act.

Audit Engagements Specific to Your Agency

DCAA can no longer perform any audit support for the following assignments that we were engaged to perform specifically for your Agency, and which did not include any DoD contracts.

[Insert table of audit assignments for the customer that are 100% reimbursable].

If your agency has any questions, or requires specific details regarding any of these assignments, please coordinate with the cognizant field audit office (FAO).

Audit Engagements Performed for DoD and Non-DoD Agencies

In many cases, a particular audit is performed on a mix of DoD contracts and non-DoD contracts. In many cases, DoD is the cognizant federal agency for establishing the indirect rates. In cases where DCAA is the cognizant federal agency, we will continue the engagements for DoD direct contract costs and the indirect costs; however, DCAA will not include the non-DoD contract costs if auditing those costs will require expending a significant amount of additional audit effort. Our records indicate your Agency is participating in the following audit assignments that pertain to a mixture of DoD and non-DoD contracts.

[Insert table of audit assignments for the customer that are less than 100% reimbursable].

We will determine if there is a significant amount of additional work to audit the direct costs on the Non-DoD contracts, and whether DCAA must withdraw from auditing those costs in accordance with the 2016 NDAA. If we must withdraw from the engagement, we will issue a memorandum withdrawing from the non-DoD portion of the audit to your agency and to the cognizant agency official who was to receive the audit report.

DCAA can continue to perform services for non-DoD agencies that fall outside of audit support. These services include:

- Negotiation Support for completed audits
- Investigative Support
- Litigation Support
- Requests for Specific Cost Information
- Provisional Billing Rates

Further Information and Questions

If you have, any questions or we can be of further assistance, please contact the undersigned at [*insert phone number*] or e-mail at [*insert e-mail address*].

Sincerely,

XXXXXXXXXX
FAO Manager
Defense Contract Audit Agency

Use FAO Letterhead

[Insert Date]

[Non-DoD Agency]
[Address]
[City, State Zip Code]

SUBJECT: Access to Incomplete Working Papers Related to [insert name of non-defense Agency] Contracts

Reference: [Insert DCAA Audit Assignment Number]

Dear Sir or Madam:

In accordance with the terms of the Memorandum of Understanding between our agencies, we are providing access to our incomplete working papers in connection with our engagement to examine [insert contractor’s name and title of the proposal under audit]. It is our understanding from your letter dated [insert date of written request letter] that the purpose of your request is (state purpose from the request letter or memo).

At your request, we made copies of the following incomplete working papers.

[Insert listing of the copied working papers by working paper reference, document name, and type e.g., .docx, .xls]

Working Paper Reference	Working Paper Name	Document type .docx, .xls

It is important to note that the working paper package we are providing is incomplete and has not been approved by DCAA management. DCAA makes no representations as to the sufficiency or appropriateness of these incomplete working papers for (insert customer name)’s purposes. DCAA will retain the original unfinished working papers in DCAA files.

Please be advised that the copies of incomplete working papers may contain contractor proprietary data and you should consider the restrictions of 18 U.S.C. 93 §1905 and, if the information is contractor bid, proposal or source selection information, 41 U.S.C 21 § 2102 prior to making the working papers available to others such as a successor auditor you engage.

Additionally, upon your request, we will meet with the successor auditor you engage to communicate the reasons for the change in auditor.

If you have, any questions or we can be of further assistance, please contact the undersigned at [insert phone number] or e-mail at [insert e-mail address of FAO].

Sincerely,

[FAO Manager Name]
[FAO Manager Title]

FREQUENTLY ASKED QUESTIONS

1. What is an example of where the additional effort to audit the direct non-DoD costs would be *de minimis*?

Below is one example of a set of facts that could exist that would result in the determination that the amount of additional effort to include non-DoD contracts in the scope of audit would be *de minimis* (Please note that the percentages used are not intended to be guidelines/policy on determining whether the effort is *de minimis*. Audit teams should base their determinations on all circumstances surrounding their contractor):

- the incurred cost proposal is 70% DoD, and 30% non-DoD
- the contractor uses the same accounting system for all of their contracts
- the non-DoD contracts do not have special terms and conditions that require unique testing, and there is no Agency supplement that significantly differs from FAR (a listing of common acquisition regulation supplements is available on the DCAA intranet under Useful Audit Links: <https://infoserv.dcaaintra.mil/Core/links.shtm>)
- the costs in the direct cost elements for both DoD and non-DoD contracts are generally homogenous
- we plan to perform a statistical sample that will result in us having to test 58 transactions for each direct cost element regardless of whether we audit only DoD or both DoD and non-DoD

In this situation, the number of transactions we test for direct costs would be the same if we included the direct costs for non-DoD contracts; therefore, the additional work necessary would be *de minimis* and we could perform the direct costs testing on non-DoD contracts.

2. What is an example of where the additional effort to audit the direct non-DoD costs would NOT be *de minimis*?

Below is one example of a set of facts that could exist that would result in the determination that the amount of additional effort to include non-DoD contracts in the scope of audit would NOT be *de minimis* (Please note that the percentages used are not intended to be guidelines/policy on determining whether the effort is *de minimis*. Audit teams should base their determination on all circumstances surrounding their contractor):

- the incurred cost proposal is 50% DoD and 50% non-DoD
- the contractor uses the same accounting system for all of their contracts
- the non-DoD contracts have special terms and conditions that need to be considered in testing, including testing for compliance with Agency supplements that differ from FAR
- one of the non-DoD contracts is a high dollar contract on which we have previously identified issues
- the costs in the direct cost elements for both DoD and non-DoD contracts are homogenous
- we plan to perform a judgmental selection based on the size of the company and risk factors associated with the different contracts

In this situation, the audit team would have to perform additional testing specific to the non-DoD contracts; therefore, the additional work is NOT *de minimis* and we could not perform the direct cost testing on non-DoD contracts in accordance with the NDAA.

NOTE: We realize that making the determination on whether or not the additional effort is *de minimis* is not always going to be as clear-cut as the two scenarios above. Every assignment has unique circumstances and the determination on whether the additional effort to include the non-DoD direct costs is *de minimis* or not will vary for every assignment and will require auditor judgment. If an audit team has questions regarding whether the effort is *de minimis* for their particular circumstances, it should be elevated through FAO management to the Region for assistance in making this determination. If the Region requires assistance, it should be elevated to Headquarters Policy, who in coordination with Legal, will help in making the determination.

3. How do we handle in process assignments that have a mix of DoD and non-DoD contracts?

For assignments with a mix of DoD and non-DoD contracts that are in process, audit teams have to assess whether the remaining work to be performed to complete the audit requires more than a *de minimis* amount of effort for the non-DoD portion. If the additional effort required to accomplish the non-DoD portion of the audit is *de minimis*, the audit can continue as planned. However, if the audit team determines the additional effort required to complete the non-DoD portion of the audit is NOT *de minimis*, effort related to the non-DoD portion of the audit should cease.

Audit teams must notify the reimbursable customer(s) of the need to cease work on the audit effort pertaining to their contracts in the in-process assignment using the proforma letter (Enclosure 5). Additionally, the audit team must determine if the inability to continue performing audit procedures on the non-DoD contract costs creates a reservation about the engagement. Audit teams must document their assessment of the reservation in the working papers by describing the reservation, the reason for the reservation and the effect, or potential effect, of the reservation on the engagement.

The effect or potential effect of the reservation on the engagement may vary depending on the phase of the audit. One example is the audit team has completed the field work, obtained sufficient audit evidence, performed sufficient procedures, and sent the audit in for management review prior to the prohibition on auditing non-DoD contracts. The remaining work related to the non-DoD portion of the audit would be *de minimis*. However, if the audit team was in the risk assessment phase, in the process of performing the field work, or if the management review of the work determines additional field work on the non-DoD costs is necessary, the team must make an assessment on whether the remaining effort related to the non-DoD portion of the audit is *de minimis*. If the remaining work is determined to be *de minimis*, the audit can continue as planned; however, if the additional work is NOT *de minimis*, the audit team cannot perform the work related to the non-DoD contracts. The inability to perform those procedures could result in a scope limitation because the team would not be able to obtain sufficient audit evidence to fully mitigate the risk of material noncompliances for the costs.

In all circumstances, when the audit team concludes the audit effort, they must consider whether there is a scope limitation, and whether the scope limitation created a reservation on the engagement individually, or in combination with other reservations, that requires issuing a qualified audit opinion or disclaiming an audit opinion.

When audit teams determine it is necessary to report a scope limitation in the audit report because of the 2016 NDAA requirement that DCAA cease providing audit support for non-DoD Agencies, they should ensure that the scope limitation in the report clearly and fully describes the reservation about the engagement. It should explain that the NDAA required DCAA to cease providing audit support for non-DoD Agencies; therefore, we were unable to complete (some or all of) the audit procedures pertaining to the direct non-DoD contract costs considered necessary in the circumstances. If noncompliances (reservations about the subject matter) were identified related to the non-DoD contracts during the course of the audit procedures that we were able to perform, and sufficient evidential matter to support the noncompliances exist, these noncompliances should be included in the report. Audit teams may wish to refer to the FAQ training on audit opinions and disclaimers of opinions provided in 2014 in making this determination.

Upon being notified that DCAA must cease audit effort pertaining to the direct costs on their contracts, if the reimbursable customer requests access to, or copies of, the in-process working papers, the audit team should ascertain the purpose of their request and provide them with copies of the working papers up to the date of our withdrawal from the audit. The audit team should use the cover letter in Enclosure 3 when providing access to, or copies of, the in-process working papers.

4. Can we issue low risk memos for incurred costs proposals that include non-DoD contracts?

If an incurred cost proposal includes both DoD and non-DoD contracts, and DoD is the cognizant federal agency, the audit team should assess the incurred cost proposal for adequacy, and determine whether it is high or low risk, if applicable. If it is determined to be low risk and is not selected for audit, the low risk memo can be prepared in accordance with our guidance. If the proposal is selected for audit, or is determined to be high risk, the guidance for mixed DoD and non-DoD contracts should be followed.

If the incurred cost proposal is 100% reimbursable, we will not do the adequacy assessment, and will not do the low risk assessment. However, if the proposal was already included in a universe and not selected for audit, the low risk memo can be prepared and sent to the reimbursable customer, as it is a nonaudit service that does not qualify as audit support.

5. How do we handle reimbursable billings on assignments that have a mix of DoD and non-DoD contracts?

If the reimbursable portion of the audit work is *de minimis*, reimbursable billings will continue as usual, with the audit team calculating the share of the reimbursable effort using the ATB% in DMIS.

If the reimbursable portion of the audit work is NOT considered *de minimis*, and direct costs for non-DoD contracts will not be included in the scope of the audit, reimbursable billings still will continue; however, the portion of the hours spent on direct cost testing should be excluded from the hours billed to the reimbursable customer. Below is a set of facts and example of how to calculate the reimbursable percentage to be billed to a customer via the ATB% in DMIS when non-DoD contracts are not included in the scope of the audit.

- Based on ADV calculations the DoD portion of the audit is 50% and the non-DoD portion is 50%.
- The supervisor approves a budget of 1000 hours for the entire assignment of which 300 hours are planned to be spent on direct cost testing.
- The portion of the budget that does not include direct cost testing is 700 hours (1000 – 300).
- The reimbursable customer is sharing in 50% of the audit excluding direct cost testing, or 50% of 700 hours, which equals 350 hours.
- To allocate 350 hours to the reimbursable customer in DMIS, the ATB % should be set at 35% for the reimbursable customer and 65% for DoD.

Use FAO Letterhead

[Insert Date]

[Non-DoD Agency]
[Address]
[City, State Zip Code]

SUBJECT: Withdrawal from Auditing Direct Contract Costs Proposed for [insert non-DoD Agency Name] Contracts in [insert contractor's name and name of proposal]

Reference: [Insert DCAA Audit Assignment Number]

Dear Sir or Madam:

We established the referenced audit assignment number to audit [insert contractor's name and name of proposal] dated [insert date of proposal] for the purpose of [insert objectives of the audit].

The contractor's proposal/submission contains a mix of DoD contracts with non-DoD/reimbursable contracts. (If auditing something other than a proposal/submission, adjust this language appropriately.)

(Continue with one of the two following statements.)

Use if letter was sent to obtain authorization and funding for the individual audit

As discussed in our [insert date of letter] letter requesting reimbursement for our auditing services, our audit scope was to include auditing the direct contract costs proposed for your Agency's contracts in [insert contractor's name and name of proposal].

Use if letter was sent notifying centrally funded Agency of audit or audit being performed under a reciprocal agreement

As discussed in our [insert date of letter] letter notifying you of our audit, our audit scope was to include auditing the direct contract costs proposed for your Agency's contracts in [insert contractor's name and name of proposal].

Continue With

However, Section 893 of the 2016 National Defense Authorization Act (NDAA) states that DCAA may not provide audit support for non-Defense Agencies unless the Secretary of Defense certifies that the backlog for incurred cost audits is less than 18 months of incurred cost inventory. As of now, DCAA does not meet that requirement. Therefore, we must cease performing the planned audit procedures pertaining to the direct costs for [insert name of non-Defense Agency] contracts and withdraw from this portion of the audit engagement.

If you have any questions or we can be of further assistance, please contact the undersigned at *[insert phone number]* or e-mail at *[insert FAO e-mail address]*.

Sincerely,

[FAO Manager Name]
[FAO Manager Title]