



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

IN REPLY REFER TO

PPD 730.5.35.1

May 27, 2016  
16-PPD-006 (R)

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

**SUBJECT: Audit Guidance on Revised Policy and Procedures for Low-Risk Incurred Cost Proposal Less Than \$250 Million in ADV**

This memorandum revises the DCAA Policy and Procedures for Sampling Low-Risk Incurred Cost Proposals originally established in MRD 12-PPD-023(R), dated September 6, 2012, and revised in MRD 13-PPD-021(R), dated October 29, 2013. The changes will ensure that we are effectively identifying incurred cost proposals that have relevant and substantial risk that would warrant an audit, specifically in the area of proposals with less than \$5 million in auditable dollar volume (ADV).

**What do FAOs have to do?**

FAOs shall reassess all assignments that are classified as high risk with an adequate proposal with ADV less than \$5 million where fieldwork has not been started using the revised policy and procedures and the *Low Risk Determination for Contractor Years with Less Than \$5M in ADV Tool*. FAOs will need to obtain Regional Audit Manager (RAM) approval if performance of an audit is warranted based on significant relevant risk, and update DMIS by August 31, 2016 to reflect any changes based on these reassessments. Going forward, FAOs shall assess risk for all adequate proposals with ADV less than \$250 million using the revised policy and procedures and the appropriate Low-Risk Determination tool. FAOs will use the revised *Low-Risk Rate Agreement* letter, if applicable, and the revised *Low-Risk Memo – Auditor Determined Rates* or *Low-Risk Memo – Contracting Officer Negotiated Rates* for the closing steps of a low-risk proposal. All of these revised documents are available on the Policy webpage at [https://infoserv.dcaaintra.mil/headquarters/P/low\\_risk\\_sampling\\_guidance.htm](https://infoserv.dcaaintra.mil/headquarters/P/low_risk_sampling_guidance.htm), where the Low-Risk Sampling Guidance is maintained.

**What were the major changes made to the low risk documents?**

- Modified the *Low-Risk Determination for Contractor Years with Less Than \$5M in ADV Tool* to identify and document the significant risk that is relevant to the incurred cost proposal being assessed.
- Modified the *Risk Determination for Contractor Years with Less Than \$5M in ADV* tool to require RAM approval, if performance of an audit is warranted based on significant relevant risk.
- Modified the *Low-Risk Determination for Contractor Years with Less Than \$5M in ADV Tool* to permit an audit on specific direct cost(s) on a specific contract, under a

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- 17900 assignment code, if this service is better suited based on the significant relevant risk identified and the risk has no potential impact on the indirect rates.
- Replaced the *Low-Risk Nonprofit ACO Memo* with a *Low-Risk Memo – Contracting Officer Negotiated Rates*. The nonprofit memorandum was designed for cases where DCAA was not the designated authority to determine rates. Instead of having one unique for non-profit, we created one that could be used in any case for a customer that is participating in the low-risk process, but is not designating DCAA rate determination authority.
  - Modified the *DCAA Policy and Procedures for Sampling Low-Risk Incurred Cost Proposals* to reflect all of the changes above, and provide further direction pertaining to these changes.

### Questions and Further Information

FAO personnel should direct questions to their regional points-of-contact. Regional personnel with questions should contact Policy Programs Division at 703.767.2270 or e-mail at DCAA-PPD@dcaa.mil.

/s/  
Donald J. McKenzie  
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Policy and Plans

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