



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PAC 730.3.B.01/2004-07

March 29, 2004
04-PAC-020(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Application of the Executive Compensation Cap

The purpose of this audit guidance is to reiterate the FAR provision that the annual executive compensation cap is applicable to the components of compensation listed in FAR 31.205-6(p)(2)(i). Specifically, FAR 31.205-6(p)(2)(i) states:

As used in this paragraph: (i) "Compensation" means the total amount of wages, salary, bonuses, deferred compensation (see paragraph (k) of this subsection), and employer contributions to defined contribution pension plans (see paragraphs (j)(5) and (j)(8) of this subsection) for the fiscal year, whether paid, earned, or otherwise accruing, as recorded in the contractor's cost accounting records for the fiscal year. (Emphasis added)

Only the components of compensation listed above are to be included in determining the total amount of a senior executive's compensation for application of the annual compensation cap. All other components of compensation, e.g., severance pay and early retirement incentive pay, should be separately evaluated for reasonableness.

If FAO personnel have any questions, they should contact regional personnel. If regional personnel have any questions, they should contact Rose M. Autmon, Program Manager, Accounting and Cost Principles Division, at (703) 767-3251 or DCAA-PAC@dcaa.mil.

/Signed/
Robert DiMucci
Assistant Director
Policy and Plans

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