



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

IN REPLY REFER TO

PPD 730.5.45.1

June 18, 2004  
04-PPD-032(R)

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

SUBJECT: Audit Guidance on the Executive Compensation Cap for Contractor Fiscal Years  
2004 and Beyond

The FY 1998 Defense Authorization Act established a new executive compensation cap for contractor fiscal year (CFY) 1998 and beyond. The Act directed the Office of Federal Procurement Policy (OFPP) under the Office of Management and Budget to set the amount of the cap and revise the cap as warranted. The enclosed *Federal Register* notice (69 FR 26897, dated May 14, 2004) sets the CFY 2004 and beyond cap amount at \$432,851. The \$432,851 cap applies to costs incurred after January 1, 2004, and to all defense and civilian agency contracts covered by the FAR cost principles, including those contracts awarded prior to the enactment of the new cap. The cap amount is to be used for CFY 2004, and subsequent CFYs, until revised by OFPP. For compensation of senior executives covered by the cap, the auditor should allow no more than \$432,851 in the pricing of each executive for CFY 2004 and all subsequent contractor fiscal years. No escalation of the \$432,851 cap for years beyond 2004 is warranted because the language of the *Federal Register* notice states the amount is for all subsequent years until revised. The new cap applies to compensation and senior executives as defined in FAR 31.205-6(p)(2)(i) and (ii), respectively.

Questions regarding this memorandum should be directed through the regions to Mr. John Galiatsos, Program Manager, Policy Programs Division, at (703) 767-2270 or e-mail at DCAA-PPD@dcaa.mil.

/Signed/  
Robert DiMucci  
Assistant Director  
Policy and Plans

Enclosure:

*Federal Register* Notice, 69 FR 26897, dated May 14, 2004

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Notices

EXECUTIVE OFFICE OF THE PRESIDENT

Office of Management and Budget (OMB)

Office of Federal Procurement Policy (OFPP)

**Determination of Executive Compensation Benchmark Amount Pursuant to Section 808 of  
Pub. L. 105-85**

*69 FR 26897*

**DATE:** Friday, May 14, 2004

**ACTION:** Notice.

**SUMMARY:** The Office of Management and Budget (OMB) is hereby publishing the attached memorandum to the heads of executive departments and agencies concerning the determination of the maximum "benchmark" compensation amount that will be allowable under government contracts during contractors' FY 2004-\$ 432,851. This determination is required to be made pursuant to Section 808 of Pub. L. 105-85. It applies equally to both defense and civilian procurement agencies.

**FOR FURTHER INFORMATION CONTACT:** Rein Abel, Office of Federal Procurement Policy, on (202) 395-3254.

**Joshua B. Bolten,**

*Director.*

**Memorandum for the Heads of Executive Departments and Agencies**

*Subject:* Determination of Executive Compensation Benchmark Amount Pursuant to Section 808 of Pub. L. 105-85.

This memorandum sets forth the "benchmark compensation amount" as required by Section 39 of the Office of Federal Procurement Policy (OFPP) Act (*41 U.S.C. 435*), as amended. Under

Section 39, the "benchmark compensation amount" is "the median amount of the compensation provided for all senior executives of all benchmark corporations for the most recent year for which data is available." The "benchmark compensation amount" established as directed by Section 39 limits the allowability of compensation costs under government contracts. The "benchmark compensation amount" does not limit the compensation that an executive may otherwise receive.

Based on a review of commercially available surveys of executive compensation and after consultation with the Director of the Defense Contract Audit Agency, we have determined pursuant to the requirements of Section 39 that the benchmark compensation amount for contractor Fiscal Year 2004 is \$ 432,851. This benchmark compensation amount is to be used for contractor Fiscal Year 2004, and subsequent contractor fiscal years, unless and until revised by OMB. This benchmark compensation amount applies to contract costs incurred after January 1, 2004, under covered contracts of both the defense and civilian procurement agencies as specified in Section 808 of Pub. L. 105-85.

Questions concerning this memorandum may be addressed to Rein Abel, Office of Federal Procurement Policy, on (202) 395-3254.

**Joshua B. Bolten,**

*Director.*

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