



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
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IN REPLY REFER TO

PSP 730.5.1.A/2013-009

August 26, 2013  
13-PSP-020(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA  
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Introduction of the New DFARS Proposal Adequacy Checklist

On March 28, 2013, DoD added a new DFARS Proposal Adequacy Checklist at DFARS 215.408(6). This change requires the inclusion of DFARS 252.215-7009 in solicitations requiring the submission of certified cost or pricing data. The solicitation provision requires contractors to complete the Proposal Adequacy Checklist (DFARS checklist) and submit it with their proposal. Auditors may have begun to see contractor-completed DFARS checklists during proposal evaluation. Accordingly, we have updated APPS and the DCAA Intranet (Other Audit Guidance (OAG) page) to support the use of the new DFARS checklist. We also made available an optional version of the DFARS checklist with modified columns to assist auditors with documenting the contractor's compliance with the DFARS requirements for an adequate proposal (Enclosure 1). The DCAA Criteria for Adequate Contract Pricing Proposals (Adequacy.doc) has been retired and will no longer be available. CAM changes will occur once the CAM Chapter 9 rewrite project is complete.

**Why did DoD make this change?**

The Department's Panel on Contracting Integrity established the DFARS checklist to consolidate existing regulatory requirements into a common checklist to communicate adequate proposal expectations to contractors, with the expected benefit being a reduced number of inadequate proposals, thereby making the acquisition process more efficient.

**How should I use the contractor completed checklist?**

Auditors should review the contractor-completed checklist accompanying the proposal and document concerns and noncompliances identified. When significant noncompliances exist, auditors should coordinate with the contracting officer and contractor, as described in CAM 9-205. Auditors should document their assessment of the contractor's compliance with the DFARS requirements for adequate proposals and its impact on the audit in the planning section of the working papers.

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### **Questions and Further Information**

We have attached frequently asked questions (FAQ) (Enclosure 2) to this memorandum. FAO personnel should direct questions regarding this memorandum to their regional offices and regional personnel should direct any questions to Pricing and Special Projects Division at 703-767-3290 or e-mail at [DCAA-PSP@dcaa.mil](mailto:DCAA-PSP@dcaa.mil).

/Signed/

Donald J. McKenzie  
Assistant Director  
Policy and Plans

Enclosures: 2

1. DCAA modified version of DFARS Proposal Adequacy Checklist
2. Frequently Asked Questions

DISTRIBUTION: E

**PROPOSAL ADEQUACY CHECKLIST**

DCAA has modified the DFARS checklist to assist auditors in determining overall proposal adequacy and documenting conclusions. The use of this form is optional.

To spur immediate corrective action, the audit team should make an initial assessment of adequacy as soon as possible after receipt and before the walkthrough. The audit team should request a walk-through from the contractor to obtain an understanding of the contractor’s submission, estimating methodology, the location of the cost or pricing data the estimator used, and cost/rate monitoring policies and procedures followed. During the walkthrough, the auditor also should discuss with the contractor any items of concern from the initial adequacy assessment. After the walkthrough, revisit the initial adequacy assessment based on the understanding obtained.

If we cannot perform an examination due to the severity of the proposal deficiencies, promptly notify the contracting officer of the inadequacies and recommend to the PCO/ACO return the proposal to the offeror to resolve.

			<u>ADEQUATE?</u>			<u>COMMENTS</u>
<u>REFERENCES</u>	<u>SUBMISSION ITEM</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>		
<b><u>GENERAL INSTRUCTIONS</u></b>						
1.	FAR 15.408, Table 15-2, Section I Paragraph A	Is there a properly completed first page of the proposal per FAR 15.408 Table 15-2 I.A or as specified in the solicitation?				
2.	FAR 15.408, Table 15-2, Section I Paragraph A(7)	Does the proposal identify the need for Government-furnished material/tooling/test equipment? Include the accountable contract number and contracting officer contact information if known.				
3.	FAR 15.408, Table 15-2, Section I	Does the proposal identify and explain notifications of noncompliance with Cost				

			<u>ADEQUATE?</u>			<u>COMMENTS</u>
	<u>REFERENCES</u>	<u>SUBMISSION ITEM</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
	Paragraph A(8)	Accounting Standards Board or Cost Accounting Standards (CAS); any proposal inconsistencies with your disclosed practices or applicable CAS; and inconsistencies with your established estimating and accounting principles and procedures?				
4.	FAR 15.408, Table 15-2, Section I, Paragraph C(1)  FAR 2.101, "Cost or pricing data"	Does the proposal disclose any other known activity that could materially impact the costs? This may include, but is not limited to, such factors as— (1) Vendor quotations; (2) Nonrecurring costs; (3) Information on changes in production methods and in production or purchasing volume; (4) Data supporting projections of business prospects and objectives and related operations costs; (5) Unit-cost trends such as those associated with labor efficiency; (6) Make-or-buy decisions; (7) Estimated resources to attain business goals; and (8) Information on management decisions that could have a significant bearing on costs.				
5.	FAR 15.408, Table 15-2, Section I Paragraph B	Is an Index of all certified cost or pricing data and information accompanying or identified in the proposal provided and appropriately referenced?				
6.	FAR 15.403-1(b)	Are there any exceptions to submission of certified cost or pricing data pursuant to FAR				

			<u>ADEQUATE?</u>			<u>COMMENTS</u>
	<u>REFERENCES</u>	<u>SUBMISSION ITEM</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
		15.403-1(b)? If so, is supporting documentation included in the proposal? (Note questions 18-20.)				
7.	FAR 15.408, Table 15-2, Section I Paragraph C(2)(i)	Does the proposal disclose the judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data?				
8.	FAR 15.408, Table 15-2, Section I Paragraph C(2)(ii)	Does the proposal disclose the nature and amount of any contingencies included in the proposed price?				
9.	FAR 15.408 Table 15-2, Section II, Paragraph A or B	Does the proposal explain the basis of all cost estimating relationships (labor hours or material) proposed on other than a discrete basis?				
10.	FAR 15.408, Table 15-2, Section I Paragraphs D and E	Is there a summary of total cost by element of cost and are the elements of cost cross-referenced to the supporting cost or pricing data? (Breakdowns for each cost element must be consistent with your cost accounting system, including breakdown by year.)				
11.	FAR 15.408, Table 15-2, Section I Paragraphs D and E	If more than one Contract Line Item Number (CLIN) or sub Contract Line Item Number (sub-CLIN) is proposed as required by the RFP, are there summary total amounts covering all line items for each element of cost and is it cross-referenced to the supporting cost or pricing data?				
12.	FAR 15.408, Table 15-2,	Does the proposal identify any incurred costs for work				

			<u>ADEQUATE?</u>			<u>COMMENTS</u>
	<u>REFERENCES</u>	<u>SUBMISSION ITEM</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
	Section I Paragraph F	performed before the submission of the proposal?				
13.	FAR 15.408, Table 15-2, Section I Paragraph G	Is there a Government forward pricing rate agreement (FPRA)? If so, the offeror shall identify the official submittal of such rate and factor data. If not, does the proposal include all rates and factors by year that are utilized in the development of the proposal and the basis for those rates and factors?				
<b><u>COST ELEMENTS</u></b>						
<b>MATERIALS AND SERVICES</b>						
14.	FAR 15.408, Table 15-2, Section II Paragraph A	Does the proposal include a consolidated summary of individual material and services, frequently referred to as a Consolidated Bill of Material (CBOM), to include the basis for pricing? The offeror's consolidated summary shall include raw materials, parts, components, assemblies, subcontracts and services to be produced or performed by others, identifying as a minimum the item, source, quantity, and price.				
<b>SUBCONTRACTS (Purchased materials or services)</b>						
15.	DFARS 215.404-3	Has the offeror identified in the proposal those subcontractor proposals, for which the contracting officer has initiated or may need to request field pricing analysis?				

			<u>ADEQUATE?</u>			<u>COMMENTS</u>
	<u>REFERENCES</u>	<u>SUBMISSION ITEM</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
16.	FAR 15.404-3(c)  FAR 52.244-2	Per the thresholds of FAR 15.404-3(c), Subcontract Pricing Considerations, does the proposal include a copy of the applicable subcontractor's certified cost or pricing data?				
17.	FAR 15.408, Table 15-2, Note 1; Section II Paragraph A	Is there a price/cost analysis establishing the reasonableness of each of the proposed subcontracts included with the proposal? If the offeror's price/cost analyses are not provided with the proposal, does the proposal include a matrix identifying dates for receipt of subcontractor proposal, completion of fact finding for purposes of price/cost analysis, and submission of the price/cost analysis?				
<b><u>EXCEPTIONS TO CERTIFIED COST OR PRICING DATA</u></b>						
18.	FAR 52.215-20  FAR 2.101, "commercial item"	Has the offeror submitted an exception to the submission of certified cost or pricing data for commercial items proposed either at the prime or subcontractor level, in accordance with provision 52.215-20? a. Has the offeror specifically identified the type of commercial item claim (FAR 2.101 commercial item definition, paragraphs (1) through (8)), and the basis on which the item meets the definition? b. For modified commercial items (FAR 2.101 commercial item definition paragraph (3)); did the offeror classify the modification(s) as either— i. A modification of a type customarily available in the				

			<u>ADEQUATE?</u>			<u>COMMENTS</u>
<u>REFERENCES</u>	<u>SUBMISSION ITEM</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>		
		commercial marketplace (paragraph (3)(i)); or ii. A minor modification (paragraph (3)(ii)) of a type not customarily available in the commercial marketplace made to meet Federal Government requirements not exceeding the thresholds in FAR 15.403-1(c)(3)(iii)(B)? c. For proposed commercial items “of a type”, or “evolved” or modified (FAR 2.101 commercial item definition paragraphs (1) through (3)), did the contractor provide a technical description of the differences between the proposed item and the comparison item(s)?				
19.	FAR 15.408, Table 15-2, Section II Paragraph A	Does the proposal include a price analysis for all commercial items offered that are not available to the general public?				
20.	FAR 15.408, Table 15-2, Section II Paragraph A(1)	Does the proposal support the degree of competition and the basis for establishing the source and reasonableness of price for each subcontract or purchase order priced on a competitive basis exceeding the threshold for certified cost or pricing data?				
<b>INTERORGANIZATIONAL TRANSFERS</b>						
21.	FAR 15.408, Table 15-2, Section II Paragraph A.(2)	For inter-organizational transfers proposed at cost, does the proposal include a complete cost proposal in compliance with Table 15-2?				
22.	FAR 15.408, Table 15-2, Section II Paragraph	For inter-organizational transfers proposed at price in accordance with FAR 31.205-26(e), does the proposal				



			<u>ADEQUATE?</u>			<u>COMMENTS</u>
<u>REFERENCES</u>	<u>SUBMISSION ITEM</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>		
A(1)	provide an analysis by the prime that supports the exception from certified cost or pricing data in accordance with FAR 15.403-1?					
<b>DIRECT LABOR</b>						
23.	FAR 15.408, Table 15-2, Section II Paragraph B	Does the proposal include a time phased (i.e.; monthly, quarterly) breakdown of labor hours, rates and costs by category or skill level? If labor is the allocation base for indirect costs, the labor cost must be summarized in order that the applicable overhead rate can be applied.				
24.	FAR 15.408, Table 15-2, Section II Paragraph B	For labor Basis of Estimates (BOEs), does the proposal include labor categories, labor hours, and task descriptions, (e.g.; Statement of Work reference, applicable CLIN, Work Breakdown Structure, rationale for estimate, applicable history, and time-phasing)?				
25.	FAR subpart 22.10	If covered by the Service Contract Labor Standards statute (41 U.S.C. chapter 67), are the rates in the proposal in compliance with the minimum rates specified in the statute?				
<b>INDIRECT COSTS</b>						
26.	FAR 15.408, Table 15-2, Section II Paragraph C	Does the proposal indicate the basis of estimate for proposed indirect costs and how they are applied? (Support for the indirect rates could consist of cost breakdowns, trends, and budgetary data.)				
<b>OTHER COSTS</b>						

			<u>ADEQUATE?</u>			<u>COMMENTS</u>
	<u>REFERENCES</u>	<u>SUBMISSION ITEM</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
27.	FAR 15.408, Table 15-2, Section II Paragraph D	Does the proposal include other direct costs and the basis for pricing? If travel is included does the proposal include number of trips, number of people, number of days per trip, locations, and rates (e.g. airfare, per diem, hotel, car rental, etc)?				
28.	FAR 15.408, Table 15-2, Section II Paragraph E	If royalties exceed \$1,500 does the proposal provide the information/data identified by Table 15-2?				
29.	FAR 15.408, Table 15-2, Section II Paragraph F	When facilities capital cost of money is proposed, does the proposal include submission of Form CASB-CMF or reference to an FPRA/FPRP and show the calculation of the proposed amount?				
<b><u>FORMATS FOR SUBMISSION OF LINE ITEM SUMMARIES</u></b>						
30.	FAR 15.408, Table 15-2, Section III	Are all cost element breakdowns provided using the applicable format prescribed in FAR 15.408, Table 15-2 III? (or alternative format if specified in the request for proposal)				
31.	FAR 15.408, Table 15-2, Section III Paragraph B	If the proposal is for a modification or change order, have cost of work deleted (credits) and cost of work added (debits) been provided in the format described in FAR 15.408, Table 15-2.III.B?				
32.	FAR 15.408, Table 15-2, Section III Paragraph C	For price revisions/redeterminations, does the proposal follow the format in FAR 15.408, Table 15-2.III.C?				
<b><u>OTHER</u></b>						

			<u>ADEQUATE?</u>			<u>COMMENTS</u>
	<u>REFERENCES</u>	<u>SUBMISSION ITEM</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>	
33.	FAR 16.4	If an incentive contract type, does the proposal include offeror proposed target cost, target profit or fee, share ratio, and, when applicable, minimum/maximum fee, ceiling price?				
34.	FAR 16.203-4 and FAR 15.408 Table 15-2, Section II, Paragraphs A, B, C, and D	If Economic Price Adjustments are being proposed, does the proposal show the rationale and application for the economic price adjustment?				
35.	FAR 52.232-28	If the offeror is proposing Performance-Based Payments did the offeror comply with FAR 52.232-28?				
36.	FAR 15.408(n) FAR 52.215-22 FAR 52.215-23	Excessive Pass-through Charges– Identification of Subcontract Effort: If the offeror intends to subcontract more than 70% of the total cost of work to be performed, does the proposal identify: (i) the amount of the offeror’s indirect costs and profit applicable to the work to be performed by the proposed subcontractor(s); and (ii) a description of the added value provided by the offeror as related to the work to be performed by the proposed subcontractor(s)?				

**Proposal Adequacy Determination:**

<b>Adequate</b>	
<b>Inadequate *</b>	

**\*- If the Overall Adequacy Determination is found to be inadequate, provide rationale and support for your determination below:**

## FREQUENTLY ASKED QUESTIONS

**Question 1:** If the contractor fails to complete and submit the DFARS checklist with its proposal, should the proposal be determined inadequate and returned to the contractor?

**Answer:** It depends. The auditor should alert the contracting officer to the omission of the DFARS checklist and coordinate as to the best course of action to support the on-going acquisition. If it is determined that the audit should proceed, the auditor should perform an independent assessment of the contractor submission using the DFARS checklist requirements to determine whether the proposal is adequate. If the contractor systemically fails to provide a completed checklist with its proposals, the auditor should consider issuing an estimating system deficiency report.

**Question 2:** Are subcontractors required to use the DFARS checklist?

**Answer:** It depends. The DFARS solicitation provision does not automatically flow down to the subcontractors. However, the prime contractor may elect to have their prospective subcontractors use the same or similar checklist, DFARS reminds contractors of this option. The auditor needs to review the request for proposal issued from the prime to the subcontractor to determine if the checklist is required.

**Question 3:** Do 1 or 2 inadequacies (i.e., “no” answers) mean the overall proposal is inadequate?

**Answer:** It depends on the significance of the noncompliance(s). Multiple “no” answers can result in an overall adequate proposal. Or multiple “no” answers can render the proposal inadequate. The auditor should apply professional judgment in making this determination by considering the materiality and significance of the noncompliance(s) identified and their relationship to the overall proposal.

**Question 4:** How should we evaluate the lack of prime contractor cost or price analysis of subcontracts provided with the proposal?

**Answer:** The adequacy requirement contained in the DFARS checklist requires the contractor to provide a matrix identifying dates for receipt of subcontractor proposal, completion of fact finding for purposes of cost or price analysis, and submission of the cost or price analysis to the Government, when cost or price analysis was not submitted with the prime contract proposal. Provided that the submission of cost or price analysis to the Government occurs before negotiations, this can be acceptable for adequacy and negotiations purposes. However, the DFARS checklist does not relieve the prime contractor of its responsibilities under FAR. FAR 15.404-3(b), Subcontractor pricing considerations, requires the prime contractor to conduct appropriate cost or price analysis to establish the reasonableness of proposed subcontract prices and include the results of these analyses in the prime contractor’s proposal. Therefore, prime contract auditors should continue to cite the FAR noncompliance and report proposed subcontract costs as unsupported, less any questioned costs from an available subcontract assist audit, when the prime contractor has not completed its cost or price analysis of the subcontract proposal.

**Question 5:** Am I required to document my assessment of contractor compliance with the DFARS checklist using the modified DFARS checklist delivered with APPS?

**Answer:** No. Auditors should document their assessment of the contractor's compliance with the DFARS requirements for adequate proposal and its impact on the audit in the planning section of the working papers. This documentation can be accomplished in many different ways. We included the modified DFARS checklist in APPS in a similar format to the prior DCAA checklist to facilitate adequate documentation of auditor conclusions; however, we do not consider it to be the only acceptable documentation method.

**Question 6:** In the new DFARS checklist, where does the contractor identify necessary assist audits of subcontracts when subcontractors deny release of proprietary data to the prime contractor?

**Answer:** The contractor should identify and list the necessary assist audits of subcontractors in their response or refer to Question 15 of the checklist.

**Question 7:** Am I required to test for compliance with the Service Contract Labor Standards statute (Checklist Question 25), as part of determining proposal adequacy?

**Answer:** No. Auditors normally will substantiate proposed rates during fieldwork. The design and intent of the DFARS checklist questions were to assist the contractor in preparing a compliant proposal; therefore, the auditor must apply judgment when using the DFARS checklist.

**Question 8:** Am I supposed to test for compliance with FAR 52.232-28 during the proposal adequacy assessment when the contractor is proposing performance-based payments (Checklist Question 35)?

**Answer:** No, normally the auditor will perform the necessary tests during fieldwork. Again, the question's design was to ensure contractors ensure their compliance with FAR before proposal submission.