



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PAC 730.3.B.01/2013-04

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

SUBJECT: Audit Alert on Evaluating the Adequacy of Cost Impact Proposals

The purpose of this audit alert is to emphasize the need to promptly evaluate the adequacy of cost impact proposals and provide a tool to expedite the evaluation. Contractors submit cost impact proposals for cost accounting practice changes and practices that do not comply with Cost Accounting Standards (CAS). Adequate cost impact proposals are essential to efficient use of audit resources. Prompt adequacy evaluations facilitate the Government's timely recovery of cost impacts. Auditors can find the tool on the Policy website, PAC webpage, under Program Area – CAS Cost Impact on the DCAA intranet.

What is the Cost Impact Adequacy Tool?

The Cost Impact Adequacy Tool lists adequacy criteria, and the regulatory basis, to consider during the proposal assessment. Expand or curtail the adequacy criteria, as necessary, based on the specific circumstances. Audit teams should use judgment and consider whether inadequacies will have a material effect on the proposed cost impact.

What should an auditor do if the proposal is inadequate?

Return proposals that are inadequate for audit to the contractor through the CFAO (Cognizant Federal Agency Official), describing the specific deficiencies. Even if the proposal is not adequate in all respects, the auditor may, at the CFAO's request, audit and report on the inadequate cost impact proposal to the extent possible. The CFAO could request a non-audit service such as a rough order magnitude (ROM) estimate of the cost impact.

Further Assistance

FAO personnel should direct questions to their regional offices and regional personnel should contact Accounting and Cost Principles Division at (703) 767-3250, or e-mail DCAA-PAC@dcaa.mil.

/Signed/
Donald J. McKenzie
Assistant Director
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