



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PPD 730.5.45.1

April 7, 2014
14-PPD-004(R)

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

SUBJECT: Audit Alert on Impact of Changes to Compensation Limitations on Forward Pricing Audits

This audit alert notifies auditors of recent statutory changes that will affect FAR 31.205-6(p), limitation on allowability of compensation for certain contractor personnel, and the impact these changes have on forward pricing audits. Auditors should be aware that these regulatory changes to the compensation limitations affect all types of audits; however, this guidance focuses on the impact to forward pricing audits only.

What are the statutory changes?

- The 2012 National Defense Authorization Act (NDAA) extended the executive compensation cap to all contractor employees for DoD, GSA, and NASA contracts awarded before, on, or after January 1, 2012.
- The Bipartisan Budget Act (BBA), Public Law 113-67, establishes a \$487,000 compensation limitation for all employees on all government contracts awarded on or after June 24, 2014. The law provides for annual escalation based on the Employment Cost Index (ECI).

Note: Both the 2012 NDAA and BBA allow exemptions to the cap for narrowly targeted categories of employees (i.e., scientists and engineers). The Secretary of Defense or Agency Heads may grant these exemptions in accordance with the governing regulation.

What is the impact to forward pricing audits?

While the Defense Acquisition Regulatory Council has not issued final rules, the impact of the statutory changes on forward pricing can be determined. Therefore, for all forward pricing assignments, the audit team should ensure that the contractor applies the \$487,000 cap to all employees, with an annual escalation based on the Employment Cost Index (ECI) for future years.

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What actions should be taken if current forward pricing rate recommendations (FPRRs) or forward pricing rate agreements (FPRAs) do not consider the impact of these changes?

The audit team should coordinate with the Administrative Contracting Officer (ACO) to develop a reasonable decrement to adjust any agreed to or recommended rates to ensure that the \$487,000 cap to all employees, with an annual escalation based on the Employment Cost Index (ECI) for future years, is appropriately considered.

Are there any exceptions to impacting rates for these changes?

The only exception to this would be if the Contracting Officer notifies DCAA that contract award would take place prior to the June 24, 2014 effective date.

What about the impact to incurred cost audits?

The Defense Acquisition Regulatory Council is in the process of working several Federal Acquisition Regulation Cases to implement these statutory changes. Once the final rules are issued, we will be issuing guidance related to incurred cost audits.

Questions and Other Information

FAOs with questions should contact their regional points of contact. Regional personnel with questions regarding this memorandum may contact Policy Programs Division at 703-767-3258.

/Signed/
Donald J. McKenzie
Assistant Director
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