



DEFENSE CONTRACT AUDIT AGENCY

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PSP 730.5.01.A\2015-034

October 28, 2015
15-PSP-011(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA ASSISTANT DIRECTORS, HQ, DCAA

SUBJECT: Audit Alert on DCMA Requests for Tailored Audit Support of Forward Pricing Rate Proposals

What do I need to know?

DCMA recently began requesting tailored audit support for forward pricing rate proposals (FPRP) under the provisions of FAR 15.404-2(a)(1) to help reduce timeframes for negotiations. DCAA and DCMA should coordinate to ensure that tailored requests protect the Government's interests. The FAR describes the role for both agencies. FAR 42.1701(b) requires that the contracting officer invite DCAA to participate in developing a Government objective and in negotiations. FAR 42.101(a) establishes that DCAA is responsible for submitting information and advice based on analysis of the contractor's financial and accounting records as to the acceptability of the contractor's estimated costs as well as performing other analysis and reviews that require access to the contractor's financial and accounting records supporting proposed and incurred costs.

What is a tailored request for an FPRP audit and what is the process?

A tailored request for audit support can be:

- a complete proposal audit where the ACO and auditor agree to a definite schedule for the results of field work; or
- an audit of a specific rate; multiple rates or pricing factors based on a coordinated risk assessment.

Prior to establishing a tailored approach, DCMA and DCAA should coordinate and discuss the procedures necessary to address specific risk areas and complete cost analysis required by FAR 15.404-1(a)(3) to support the development of a Government rate objective.

When should we engage DCMA to ensure an efficient audit plan?

Audit teams should engage the ACO when they are preparing the annual cost monitoring plan. DCMA normally prepares its cost monitoring plans in the October/November timeframe each year. Audit teams should engage DCAA management, including the Region and Headquarters, if necessary, who will engage DCMA management, as appropriate, to work towards early resolution of any differences of opinion regarding the anticipated audit support.

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What do I need to consider before commencing work on a tailored audit request?

Audit teams should hold discussions with the requestor upon receipt of a request for audit to gain a clear understanding of the requestor's needs, to identify specific areas of concern, and to discuss how DCAA can best meet those needs. The tailored request for audit support of forward pricing rates cannot be accepted or rejected absent the preliminary review and discussion with the contracting officer. Auditors should perform the preliminary effort required to develop a recommended risk-based scope of audit and, based on that information, coordinate the tailored request with the ACO to protect the Government.

Audit teams need to identify total indirect costs being proposed and negotiated using these rates in individual contract proposals over the next year before commencing work on a tailored request. If there are significant indirect costs being priced into contracts, DCAA likely will need to perform an audit of the FPRP. The audit team will need to communicate with the ACO on their desire for tailoring and to ensure that a collective decision is based on what is necessary to protect the Government.

Audit teams should work with DCMA to ensure that the tailoring approach results in the performance of effective cost analysis procedures (as outlined in FAR 15.404-1(c)) and proper coverage of compliance with Cost Accounting Standards (CAS), as applicable. FAR 15.404-1 requires the performance of cost analysis procedures when certified cost or pricing data are required. Since the rates will be certified when used in individual price proposals, there is a clear requirement to ensure completion of this analysis. DCAA's standard audit program performs testing consistent with these requirements. DCAA and DCMA should ensure that any tailored request continues to provide the coverage required to protect the Government.

Finally, audit teams should consider the overall evaluation approach to ensure that the tailored request eliminates unnecessary duplication and increases efficiencies in establishing the Government's objective. Audit teams must discuss and resolve tailored requests that do not minimize duplication or result in inefficiencies.

What if DCMA requests that we focus our procedures on an individual expense account, like travel?

Audit teams should understand the ACO's risk factors and concerns with the requested expense accounts and how these concerns fit into the overall coordinated plan to establish a Government objective on Forward Pricing Rates. Audit teams should ensure that they plan procedures necessary to provide input on the ACO's concerns within requested timeframes. However, performing procedures designed to address the risks only on an individual expense account are not sufficient to support an audit opinion on the contractor's assertion (i.e., the FPRP). Therefore, if the audit team has made a determination that an audit of the FPRP is necessary to support significant price proposal effort, or to address significant risks with the

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FPRP, the audit team will communicate this to the ACO. The communication should inform the ACO that if timing does not permit the audit team to complete an audit of the entire FPRP prior to negotiations, the audit team will prioritize the work for the areas of specified risk, and communicate real-time Management-approved results before release of the audit report. This will ensure that the ACO has the information they believe is essential in developing the Government objective and preparing for negotiations. If negotiations have occurred before the audit is complete, audit teams should continue to complete the audit and, once complete, provide the report to the ACO. If the audited rates vary significantly from the negotiated rates, audit teams should coordinate with the ACO to ensure that they reopen negotiations to resolve significant differences, and notify the PCO so they are aware of the audited rates before completing negotiations.

How do I resolve differences of opinion with requested audit support?

Audit teams should perform an initial/preliminary risk assessment of the entire submission based on factual information. This should include developing the procedures considered necessary, the time required to complete those procedures, and the consequence of not performing those procedures. Using this information, the audit team should coordinate with the requestor to resolve any inconsistencies between the requested audit effort and the scope of audit determined by the auditors' assessed level of risk. If this coordination does not resolve the difference of opinion on the audit effort required, these unresolved differences should be elevated to DCAA Headquarters, PSP through your region, immediately.

Where can I find more information on expected actions?

Audit teams should revisit the December 2014 FAQ training on forward pricing rates, which emphasizes that the audit team engage DCMA in a joint planning process *prior to receipt of the forward pricing rate proposal* to discuss:

- (i) risk areas,
- (ii) additional ACO requirements,
- (iii) analysis procedures recommended to address those risks and to complete FAR 15 required cost analysis,
- (iv) resources available,
- (v) the magnitude and complexity of the required analysis,
- (vi) timing required to meet ACO needs, and
- (vii) real-time communication of management approved findings

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Questions and Further Information

FAO personnel should direct any issues or questions to their regional offices. Regional personnel should direct any issues or questions to Ms. Suzanne Windes, Pricing and Special Projects Division, at Suzanne.Windes@dcaa.mil or 520-794-5206.

/Signed/

Donald J. McKenzie
Assistant Director
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