



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

IN REPLY REFER TO

PAC 730.3.B.01/2018-01

November 21, 2017
17-PAC-008(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
CORPORATE AUDIT DIRECTORS, DCAA
ASSISTANT DIRECTORS, HQ, DCAA**

SUBJECT: Audit Guidance on Application of DFARS 231.205-18, Independent Research and Development and Bid and Proposal Costs

The purpose of this Memorandum is to provide auditors with guidance in applying the requirements of the Defense Federal Acquisition Regulation Supplement (DFARS) 231.205-18, Independent Research and Development and Bid and Proposal Costs. The Defense Procurement and Acquisition Policy (DPAP) issued a Class Deviation that impacts the application of the requirements.

HOW DOES THE CLASS DEVIATION IMPACT CURRENT AND FUTURE AUDITS?

For all current and future audits of any type, no audit procedures should be performed to verify that the contractor engaged in technical interchanges prior to incurring independent research and development (IR&D) costs. The Class Deviation was effective upon issuance of the DPAP Memorandum and auditors should ensure that the deviation is applied retroactively to all audits performed of Fiscal Year 2017 costs, as well as to all future audits. Therefore, for current audits and all future audits, no IR&D costs should be questioned if the auditor finds that a technical interchange did not take place.

BACKGROUND

DFARS 231.205-18 was amended on November 4, 2016 to require contractors to engage in or document a technical interchange as part of the criteria for determining allowable IR&D costs. In order for annual IR&D costs to be determined allowable for IR&D projects initiated in Fiscal Year 2017 and later, a major contractor (as defined in DFARS 231.205-18(a)(iii)) is required to engage in a technical interchange with a technical or operational DoD Government employee before IR&D costs are generated. The contractor also must document the interchange in the Defense Technical Information Center (DTIC).

PAC 730.3.B.01/2018-01

November 21, 2017

17-PAC-008(R)

SUBJECT: Audit Guidance on Application of DFARS 231.205-18, Independent Research and Development and Bid and Proposal Costs

DPAP issued a Class Deviation on September 14, 2017 directing contracting officers to not require major contractors to engage in the technical interchange. As a result of the deviation, the requirements at DFARS 231.205-18(c)(iii)(C)(4) are no longer part of the criteria a contracting officer must consider in determining a major contractor's IR&D costs to be allowable.

FAO personnel with questions regarding this audit guidance should contact their Regional Offices/Corporate Audit Directorates. Regional Office/Corporate Audit Directorate personnel with questions regarding this MRD should contact Accounting and Cost Principles Division (PAC) at (703) 767-3250 or via e-mail at DCAA-PAC@dcaa.mil.

/Signed/

Jennifer L. Quinones

Deputy Assistant Director, Policy and Plans

DISTRIBUTION: E