



DEFENSE CONTRACT AUDIT AGENCY
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IN REPLY REFER TO

PIC 730.5.35.1

December 2, 2019
19-PIC-005(R)

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

SUBJECT: Revised Policy and Procedures for Sampling Incurred Cost Proposals EFFECTIVE:
All sampling universes effective January 1, 2020.

This memorandum revises Agency Policy for determining which incurred cost proposals (ICPs) are eligible for sampling. The Agency has adopted a new risk assessment framework that provides for three levels (or strata) of risk: low, medium, and high. Sampling ADV will determine the risk level and sampling strata assigned; qualitative criteria for each strata will determine if the proposal is eligible or ineligible for sampling. The likelihood and frequency of audit will vary based on each strata's criteria.

The revised policy and procedures are effective January 1, 2020. Any incurred cost proposal received on or after this date is subject to the new policy. Policy will revise CAM Chapter 6-104 to reflect the new guidance.

What are the Major Policy Changes and Pertinent Information?

- **Establishment of Low, Medium, and High Risk Categories.** This policy establishes a three-tier (low, medium, and high) risk determination framework. The new framework revises strata thresholds, criteria for sampling eligibility, and sampling percentages. In addition, ICPs up to \$1 billion dollars may be eligible for sampling. The new framework is referred to as risk-based sampling.
- **New Sampling ADV Calculation.** The revised guidance requires the use of Sampling ADV, which differs from the standard ADV and dollars examined calculations, in determining sampling eligibility and assigned sampling strata. A new field for Sampling ADV will be added to DMIS.
- **Revised Criteria for Sampling Eligibility.** This policy revises the criteria used to determine if an ICP is eligible for sampling.
- **Determining Significant Prior Year Questioned Cost.** Significant prior year questioned costs shall be based on the quantified materiality threshold of the prior year assignment.
- **Exclusions from Sampling.** The new policy clarifies assignments that are excluded from the sampling process.

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- **Performing 17900 Audit to Address Specific Direct Cost(s) Risk.** The new policy removes the dollar limitation on performing an audit to address specific identified direct costs risk(s) on a specific contract(s) while still issuing the risk-based sampling memo for the indirect rates.
- **DMIS Updates.** DMIS 8.4 will be deployed on approximately January 10, 2020, and will include updates to support the new risk-based sampling process. For submissions received on or after January 1, 2020, DMIS inputs in sampling related fields should not be entered until after the DMIS update. The update will include the following:
 - New Sampling ADV field;
 - New Sampling Eligibility (Y/N) field;
 - Revised field names to clearly distinguish between “dollars examined” and “sampling ADV”; and
 - Other miscellaneous revisions.
- **PPG Chapter 1 Added to the DCAA Public Website.** The revised risk-based sampling framework is generally based on the contents of the DoD Professional Practice Guide (PPG). Section 809 of the FY 2016 National Defense Authorization Act (NDAA) established the 809 Panel who developed the PPG and included recommendations related to audit of government contracts. Chapter 1 of the PPG will be added to the Guidance page on the DCAA public website.

What Auditors Need to Do

- Auditors performing incurred cost adequacy reviews and risk-based sampling eligibility determinations must take the new DCAI e-Learning course, “AUD 113E Risk-Based Sampling of Incurred Cost Submissions.”
- All auditors should familiarize themselves with the new policy and procedures located in VIPER.
- Auditors should begin using the new risk-based sampling eligibility determination tools located with Other Guidance on the Audit Programs, Reports, OAG intranet page.
- Auditors should calculate Sampling ADV to determine which sampling eligibility determination tool applies to ICP under determination.
- Code the ICPs as eligible for sampling or ineligible for sampling in DMIS based on the completed sampling eligibility determination.

What Supervisors Need to Do

- Supervisors responsible for incurred cost adequacy reviews and sampling eligibility determinations must take the new DCAI e-Learning course, “AUD 113 Risk-Based Sampling of Incurred Cost Submissions.”
- Supervisors should familiarize themselves with the new policy and procedures located in VIPER.
- Ensure audit staff uses the correct risk-based sampling eligibility determination tool based on the calculation of Sampling ADV, not the standard ADV / dollars examined calculation.

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- Ensure the incurred cost assignments are coded properly in DMIS in accordance with the revised guidance and DMIS codes.

Overview of Risk Assessment Framework

The table below summarizes the new risk categories, strata thresholds, and mandatory audit cycles.

Low	<\$5M	
	\$5M to <\$100M	
Medium	\$100M to \$250M	Mandatory audit every 5 th year.
	>\$250M to \$500M	Mandatory audit every 4 th year.
High	>\$500M to <\$1B	Mandatory audit every other year.
	\$1B or more	Audit must be performed each year.

Questions and Further Information

FAO personnel with questions regarding this audit alert should contact their regional or CAD offices. Regional/CAD personnel with questions regarding this audit alert should contact Policy Incurred Cost Division at (703) 767-2270 or via e-mail at DCAA-PIC@dcaa.mil.

/s/ Scott Perry
/for/ Martha E. McKune
Assistant Director, Policy and Plans

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