



DEFENSE CONTRACT AUDIT AGENCY
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IN REPLY REFER TO

PAC 730.3.B.01/2021-01

January 21, 2021
21-PAC-001(R)

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

SUBJECT: Revised Procedures for Reporting Penalties for Expressly Unallowable Costs

This MRD revises Agency Policy for reporting penalty calculations. Audit reports will no longer include a calculation of recommended penalty amounts. As required by FAR 42.709-2, reports will continue to identify which reported questioned costs are subject to penalty and the level of penalty.

Why We Are Revising Policy

Including this information in our reports results in making penalty calculations prior to final determination on the underlying questioned costs by the contracting officer. The contracting officer has sole authority to determine expressly unallowable costs and assess penalties. Consequently, the previous approach could result in duplication of effort or the need to provide updated calculations. As such, we have removed the requirement to include the penalties for expressly unallowable costs in our audit reports. Auditors should continue to support the contracting officer throughout negotiations and when requested, provide assistance when calculating penalties as part of negotiation support. This approach will eliminate the need to perform calculations multiple times and result in the calculations aligning with the contracting officer's final determinations.

Questions and Further Information

We updated the guidance in the DCAA Contract Audit Manual (DCAM) and the Corporate Office and Post Year End 10100 standard audit programs to reflect this guidance.

FAO personnel with questions regarding this audit alert should contact their regional or CAD offices. Regional/CAD personnel with questions regarding this MRD should contact Policy Accounting and Costs Principles Division at (703) 767-3280, or via e-mail at DCAA-PIC@dcaa.mil.

/Signed/
Martha E. McKune
Assistant Director, Policy and Plans

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