



**DEFENSE CONTRACT AUDIT AGENCY
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IN REPLY REFER TO

PSP 730.5.01.A

January 26, 2023
23-PSP-003(R)

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

SUBJECT: Audit Alert on Early Engagement of Forward Pricing Price Proposals and Forward Pricing Rate Proposals

What You Need to Know?

Early engagement continues to be discussed as a key means for tightening acquisition timelines. DCAA is committed to work proactively with the buying command, Defense Contract Management Agency (DCMA), and the contractor to increase efficiencies without sacrificing quality. DCAA is part of the acquisition community, as such, the forward pricing audits and field pricing support process is conducted as a cooperative team effort to provide timely and effective response to the Procurement Contracting Officer's requests.

What Auditors Need to Do?

Communication

FAR 15.404-2(a)(3) encourages contracting officers to team up with appropriate field experts throughout the acquisition process, including negotiations. Although DCAA auditors **may not** be a team member of an IPT (see CAM 4-103), auditors are encouraged to reach out early and establish rapport with stakeholders and set recurring meetings. Early communication may include:

- Discussions regarding procurement schedule,
- General advice related to the audit on what constitutes an adequate proposal by explaining the regulatory requirements applicable to the proposal (e.g., requirements for Certified Cost or Pricing Data, FAR 15.408, Table 15-2),
- Discussions on specific areas for what assistance is needed and the contracting officer's concerns,
- Coordination on realistic audit schedule,
- Expectations of timely contractor support,
- Establishment of roles and responsibilities,
- Identification of expected major subcontract costs and allocation of corporate, intermediate home office, and shared service costs,

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- Certified cost or pricing data and data other than certified cost or pricing data required to perform the field pricing assistance audit,
- Coordination with Field Detachment and cognizant DCAA offices for assist audits of significant subcontractor and allocated costs included in the submission, and
- Obtain assistance from Financial Liaison Advisor to facilitate communication.

Pre-Submission Procedures

Generally, the risk assessment cannot be completed until an adequate proposal is received. However, there are certain pre-proposal procedures that could be started prior to the receipt of the forward pricing price and forward pricing rate proposals. This can include review of permanent files, prior/in-process audits, and publically available information for significant and relevant inherent risk factors. Examples include, but are not limited to:

- Audit leads, including contractor mandatory disclosures required by FAR 52.203-13(b)(3)(i),
- Prior audit findings and recommendations,
- Outstanding FAR and CAS noncompliances,
- Disclosed accounting changes,
- Fraud indicators,
- Reported noncompliance(s) with 10 U.S.C Chapter 271: Truthful Cost or Pricing Data (Truth in Negotiations), and identified defective pricing leads,
- Estimating system requirement deficiencies,
- Planned or executed business reorganizations, mergers, acquisitions, or divestitures,
- Contractor cost savings or cost reduction initiatives,
- Advance agreements, and
- Publicly available information and other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).

It may be necessary to coordinate with the contractor to obtain an understanding of the subject matter, such as:

- Availability of Price/Cost Analysis Reports for materials and subcontracts,
- Basis of estimate for significant pools, bases, and cost elements,
- Processes used to develop the estimates and the internal controls/policies and procedures related to those areas,
- Process in setting the compensation package for executive and non-executive,
- Relevant corrective actions that were taken to address prior audit findings,
- Pertinent results from review of Board of Director minutes, and
- Summary listing of internal audits or external audit reports.

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Data Analytics

With advances in technology, DCAA can better analyze the contractor's data using computer techniques in conjunction with substantive analytical procedures and tests of details to assess risk, obtain sufficient and appropriate evidence, and evaluate the overall audit conclusions. Pre-proposal procedures may include:

- Coordinate with Regional/CAD office on use of data analytics and data format requirements that will allow for use of Power BI,
- Discuss with the contractor on how historical trend data was considered in the development of the estimates,
- Determine and assess whether there have been any organizational structure changes, unusual events, or accounting changes where the historical trend analysis may not be appropriate or may require adjustment,
- Gather and reconcile relevant historical recorded costs to books and records,
- Use available data analytical models to organize historical data,
- Use trend/comparative analysis to determine if there are significant variations/outliers (Note: Detailed testing of any significant variations/outliers and adjustments to recorded cost data may be required, see CAM 9-703.5),
- Determine overall historical accuracy of contractor estimates (e.g., compare total forecasted pool and base costs and resulting rate to actual pool, base, and rate for relevant historical period), and
- Document audit work previously performed or to be performed that supports the reliability of the computer-based evidence.

Questions and Further Information

FAO personnel with questions regarding this audit alert should contact their regional or CAD offices. Regional/CAD personnel with questions should contact Pricing and Special Projects Division via e-mail at DCAA-PSP@dcaa.mil.

/Signed/

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Enclosure:

Frequently Asked Questions

DISTRIBUTION: E

FREQUENTLY ASKED QUESTIONS

Question 1: Does this audit alert apply to all forward pricing price and forward pricing rate proposals, or only large proposals? Furthermore, when should the pre-engagement begin and are these all-inclusive procedures?

Answer: This memorandum provides auditors a general framework to assist the buying commands in meeting their procurement timelines. Auditor judgement should be used to determine the need, timing and extent of pre-submission effort required to accomplish the procurement needs. The audit team should also consider any other procedures not listed in the memorandum that are appropriate for the circumstance.

Question 2: What do we charge for the pre-engagement effort?

Answer: The audit team should use activity codes 21000 and 23000 for the forward pricing price and forward pricing rate proposals respectively for the pre-engagement efforts. The future DMIS replacement will have fields built in to track pre-engagement work and will not count the effort towards the elapse days. However, there are unique circumstances where one or two assignments that feed into future forward pricing proposals could be used. Audit teams should discuss with their Regional/CAD offices on the appropriate method.

Question 3: Where should the developed templates, working papers, collected data, and notes be stored?

Answer: Because the pre-engagement effort is designed to facilitate a timely audit, the information collected and documented should be stored in Caseware for the eventual audit. The information collected would also be useful in future procurement audit efforts, even if the instant audit does not materialize.

Question 4: What are pre-proposal procedures that can be performed if cost or price analysis are available prior to submission of the final proposal?

Answer: We need to start looking into the risk profile of proposed major subcontractors as early as possible. For example, determine the availability of cost or price analysis and review the prime contractor's history with the subcontractor (e.g. prior awards based on competition, cost or price analysis used for negotiation, sustention for prior recommendations, and pricing history). Obtaining this type of information will make the decisions on the need for assist audits more informed. These decisions and coordination with cognizant DCAA offices need to come as early as possible to assist in meeting the customer's due dates and negotiations requirements.

Question 5: When can the assist audit of a major subcontract proposal begin?

Answer: Audits of subcontract forward pricing proposals may be performed when requested by the contracting officer or prime contract auditor prior to submission of the prime contractor's signed forward pricing proposal or its subcontract analyses provided that all of the following guidelines are met:

- The subcontract proposal has been approved by the appropriate subcontractor management, the prime contractor has submitted the subcontract proposal to the

FREQUENTLY ASKED QUESTIONS

Government with an assertion from the prime contractor's management that it intends to contract with this subcontractor,

- The subcontract forward pricing proposal is adequate for examination based on the requirements set forth in FAR Subpart 15.4, Contract Pricing, and
- The contracting officer or the prime contract auditor request an audit of the subcontractor proposal and have informed the subcontract auditor that the contracting officer and/or auditor have determined that subcontract audit support is required based on DFARS PGI 215.404-3a(i), Subcontract Pricing Considerations. In accordance with DFARS PGI 215.404-3a(i), the contracting officer may request audit or field pricing assistance.

Question 6: Do we communicate or share results of pre-proposal procedures with the acquisition community?

Answer: The purpose of early engagement procedures is to coordinate resources and gather information for the eventual audit. However, DCAA does not participate in meetings to discuss proposal development, or review or provide input on draft proposals. The audit team should discuss the ground rules with the acquisition members so they are aware of DCAA's limitations. Regardless of the circumstances, the audit team should always refrain from comments that could be construed as advising the contractor on how to develop its proposal. However, the audit team may advise the contractor an adequate proposal must include an explanation of the estimating process, including judgmental factors and the methods used in the estimate of that cost element (see CAM 4-103).

Question 7: What do we need to consider if the contractor will only support the proposal after it is submitted (i.e., contractor will not support pre-proposal effort)?

Answer: Communication is the key to success. It is in the public's interest and the contractor's interest that proposals are put onto contracts to meet requirement needs. Auditors should work with the buying command to explain to the contractor the procurement schedule and the need for their support.