



**DEFENSE CONTRACT AUDIT AGENCY
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PIC 730.3

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24-PIC-005 (R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
CORPORATE AUDIT DIRECTORS, DCAA
ASSISTANT DIRECTORS, DCAA

SUBJECT: Updated Guidance on Reporting Questioned Direct Costs on Incurred Costs Audits

What You Need to Know

We updated our procedures to align with the Defense Federal Acquisition Regulation Supplement (DFARS) 242.302(b)(S-71)(A) and (B), which became effective on March 22, 2023. With this updated regulation, the Procuring Contracting Officer (PCO) is responsible for negotiating or settling questioned direct costs in an incurred cost audit. Except for classified contracts, the PCO may delegate the authority to negotiate direct costs to the Defense Contract Management Agency (DCMA) Administrative Contracting Officer (ACO) upon prior coordination and agreement.

In response to these regulatory changes, our Policy, Quality and Legislative Affairs Directorate (PQLA) revised two Contract Audit Manual (CAM) chapters: CAM 6-708.5 on Writing the Audit Report, and CAM 10-210.1 on Audit Report Distribution and Restrictions (Reports-General). These updates help us follow the DFARS requirements while ensuring we efficiently report questioned direct costs to the appropriate PCOs. This also supports the timely resolution of these costs and the effective management of DoD funds.

What Auditors Need to Do

Effective October 1, 2024, when issuing an audit report on incurred costs audits that include questioned direct costs:

- Coordinate as necessary with the ACO or the cognizant Financial Liaison Advisor (FLA).
- Always confirm the cognizant PCO is correct before reporting on questioned direct costs and include all relevant PCOs in the distribution list and applicable exhibit.
 - To assist in locating the applicable PCO, access the Award Management Team (AMT) search tool located on the Procurement Integrated Enterprise Environment (PIEE) Electronic Data Access (EDA) application. This tool

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allows users to conduct searches using either the Contract/Award Number or CAGE Code.

- Send copies related to direct and indirect cost/rates to the appropriate PCO and ACO.

Summarize questioned direct costs in an exhibit format, including the following information:

- PCO Email
- Department of Defense Activity Address Code (DoDAAC) (if applicable)
- Contract Number
- Delivery/Task Order
- Cognizant Customer (Command/Non-DoD Customer)
- Questioned Cost by Cost Element
- Total Questioned Costs
- Exhibit (explanatory note for the cost element)
- Page Number (in the report exhibit)
- Note (addressing the questioned cost)

The information included on the exhibit can be tailored based on the PCO/ACO needs. Always confirm the cognizant PCO is correct before reporting on questioned direct costs and ensure all relevant PCOs are included in the distribution list. Additionally, users will document this data in the Enterprise Performance Information Center (EPIC) as part of the incurred cost engagement (audit) record.

Questions and Further Information

FAO personnel with questions regarding this memorandum should contact their Regional, Field Detachment, or CAD offices. Regional/Field Detachment and CAD personnel with questions should contact Policy Incurred Cost Division (PIC) at dcaa.belvoir.hq.mbx.dcaa-pic@mail.mil.

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