



**DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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FORT BELVOIR, VA 22060-6219**

IN REPLY REFER TO

PIC 730.5.31

January 11, 2019
19-PIC-001(R)

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

SUBJECT: Audit Guidance on Revised Policies and Procedures for Auditing Incurred Subcontract and Inter-Organizational Transfer Costs

Subcontract assist audits will no longer be requested for the life of the subcontract; instead, auditors will evaluate risk every year and request subcontract assist audits as needed. We are revising guidance because of the sensitivity of subcontract awards and changes within the contract administration and contract audit environment (e.g., contract closeout, low risk memorandums). The revisions and clarifications to CAM 6-802.5 and the 10100 Post Year-End Incurred Cost Audit Program also incorporate suggestions from the field and stress the importance of clear communication between prime and subcontract auditors.

Changes and Clarifications

Policy Change: Annual Assessment Instead of Lifetime Request (CAM 6-802.5.b)

The prime auditor will no longer request assist audits for the life of the subcontract based on the total expected subcontract value at the time of award. Rather, the prime auditor, in coordination with the subcontractor auditor, will assess the risk and need for assist audit effort based on subcontract costs included in the prime contractor's annual incurred cost proposal.

Clarification: Prime Auditor Responsibilities when Assessing Risk (CAM 6-802.5.b)

To assess the risk of subcontract costs annually, the prime auditor is responsible for:

- Coordinating with the subcontract auditor
- Requesting subcontract assist audits on areas of identified risk
- Determining the necessary audit scope to mitigate identified risks (which may range, for example, from a full audit to cost verification of rates/direct costs).

Clarification: Prime and Subcontract Auditor Responsibilities for Coordination (CAM 6-802.5.b)

- Prime Auditor: Prior to issuing a request for an assist audit, the prime auditor should communicate with subcontract auditors about audit history, prior issues, eligibility for the low risk sampling pool, reliability of the indirect rates/budgets, and other issues that affect risk.

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- Subcontract Auditor: Whenever subcontract auditors become aware of significant subcontractor risks, they should initiate a discussion prior to hearing from the prime auditor.

Clarification: Important Considerations for Subcontractor Low Risk Memoranda

When considering a low risk memorandum (LRM), timely communication between the prime and subcontract auditor is critical. If prime auditors are aware of a material risk relating to subcontract cost, they should communicate with the subcontract auditor as soon as possible. The subcontract auditor can then determine whether the risk is material and/or pervasive enough to consider the subcontractor high risk.

The prime auditor should be aware of subcontract costs eligible for low risk sampling when planning assist audits. Subcontractors may be eligible for low risk sampling if they are also a prime contractor and the auditor and contracting officer agree on that eligibility. The subcontract auditor should document the risk factors identified by the prime auditor and determine whether to proceed with performing an assist audit or issuing a LRM.

Clarification: Prime Contractor's Responsibilities for Managing its Subcontractors (CAM 6-802.2 and 6-310.3.c.)

The prime contractor is responsible for:

- Billing costs to the Government (FAR 52.216.7)
- Settling subcontractor amounts and rates prior to submitting the final prime contract voucher (FAR 52.216-7(d)(5))
- Providing a status of subcontractor audits to the contracting officer upon request (FAR 52.216-7(d)(5))
- Oversight and surveillance of its subcontractors (DFARS 252.244-7001)

Although it is the prime contractor's responsibility to manage its subcontracts, auditors should not question subcontract costs based solely on deficiencies in the prime contractor's subcontract management process. Instead, if the contractor lacks sufficient procedures for subcontractor management or cannot demonstrate how it ensures subcontract costs are allowable, allocable and reasonable, auditors should:

- (1) identify audit procedure(s) that would be sufficient to mitigate the risk to the Government; and
- (2) determine whether to create a business system deficiency assignment to report the deficiency.

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Training

Policy is working with DCAI to ensure that applicable course materials are updated and whether new training will be developed. Policy will also be providing training at the January/February 2019 FAQ conference.

Additional Questions

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

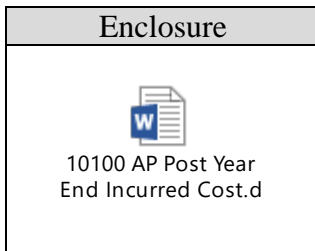
/s/

/for/ Martha E. McKune

Assistant Director, Policy and Plans

Enclosure:

Revised Post Year-End Incurred Cost Audit Program



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