



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

13 Jan 2011

MEMORANDUM FOR DISTRIBUTION

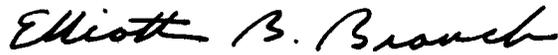
SUBJECT: Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending; “Align Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) Processes to Ensure Work is Complementary”

During September 2010, the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) directed DCMA and DCAA to better align work and reduce overlap in their agencies’ processes. The attached Director, Defense Procurement and Acquisition Policy (DPAP) memorandum “Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending; Align Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) Processes to Ensure Work is Complementary” of January 4, 2011 outlines the following actions DCMA and DCAA have taken and coordinated with DPAP to meet this task:

- Effective September 17, 2010, DCAA no longer performs field pricing audits on cost-type proposals below \$100M and fixed-type proposals below \$10M. DCMA will provide field pricing assistance for such actions.
- DCMA will be the single Agency responsible for issuing Forward Pricing Rate Agreements and Forward Pricing Rate Recommendations.
- DCAA plans to cease performing Financial Capability Reviews and Purchasing System Reviews. DCMA will conduct both reviews.
- DCAA will continue to audit subcontract costs as part of its incurred costs audits and report any deficiencies to the Administrative Contracting Officer for resolution.
- DPAP published for public comment a proposed rule to clearly define DCMA and DCAA roles and responsibilities for assessing and determining the status of contractors’ business systems, see DFARS Case 2009-D038 available at <http://www.regulations.gov/#!documentDetail;D=DARS-2010-0125-0003> .

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As DCAA and DCMA continue to refine their operational processes, there will likely be further changes. You will be informed of any future changes as additional information becomes available. My point of contact for this memorandum is Evelyn Ortiz at evelyn.ortiz@navy.mil or (703)-614-9640.


ELLIOTT B. BRANCH
Executive Director
DASN(A&LM)

Attachment:
As stated

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ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

JAN - 4 2011

MEMORANDUM FOR COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION AND LOGISTICS MANAGEMENT)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending; "Align Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) Processes to Ensure Work is Complementary"

The Under Secretary of Defense (USD) for Acquisition, Technology, and Logistics (AT&L), signed memorandum "Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending," dated September 14, 2010, called for a better work alignment and reduction in DCMA/DCAA overlap. The Directors of Defense Procurement and Acquisition Policy (DPAP), the Defense Contract Management Agency (DCMA) and the Defense Contract Audit Agency (DCAA) have been working to ensure that USD AT&L's guidance is effected. To that end the following actions have been implemented:

- **Increased Thresholds for Cost/Price Proposal Audits**

DCAA will no longer perform field pricing audits on cost-type proposals less than \$100M and fixed-type proposals less than \$10M per change to DoD Policy Guidance and Information (PGI) 215.404-2 effective September 17, 2010. Requests below the dollar threshold set in the PGI will be referred to DCMA for field pricing assistance. This policy change will allow DCAA to move more audit resources to higher risk work that presents greater opportunity for greater return to the taxpayers. In anticipation of the increased workload at DCMA, during the past year, DCMA has hired an additional 215 new cost/price analysts (on its way to hiring 300 by the end of 2011) to meet increasing demand for cost/pricing services. Note: DCAA will still perform assist audits on "under threshold" price proposals, irrespective of dollar value, if it is conducting an audit of the prime.

- **Forward Pricing Rate Agreements (FPRAs) / Forward Pricing Rate Recommendations (FRRs)**

DCMA will be the single Agency responsible for issuing all Forward Pricing Rate Agreements and Forward Pricing Rate Recommendations for contractors where DCMA is the cognizant contract administration office. In those cases where DCAA has completed an audit of a particular contractor's rates, DCMA shall adopt the DCAA recommended rates as the Department's FRR position. DCMA has coordinated a draft Forward Pricing Rate policy with DCAA reflecting the associated change and on December 9, 2010, briefed the senior contracting community in the Department on the changes to the Forward Pricing Rate process the two agencies have made. This policy supports the goal of better aligning the work of the two agencies by ensuring a single department rate position is provided to DCMA/DCAA customers at all times.

- **Financial Capability Reviews**

DCAA plans to withdraw from performing Financial Capability Reviews and Audits. DCMA will continue to conduct Financial Capability Reviews as part of the Pre-Award Survey Process in accordance with FAR part 9.106 and DFARS PGI Part 209.106. DCMA has established a Financial Analysis Division under its Cost and Pricing Center and is adding additional staff to meet the increased workload requirements.

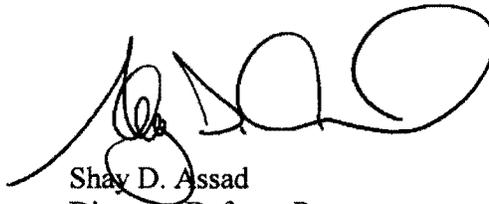
- **Purchasing System Reviews**

DCAA plans to withdraw from performing regularly scheduled Purchasing System Audits. DCMA will continue to conduct Contractor Purchasing System Reviews in accordance with FAR Part 44.3 and DFARS part 244.3. DCMA has a Purchasing System Review Center under its Contracting Division and is increasing both the number of analysts assigned to the Center and reviews performed per year to meet the increased workload requirements. DCAA will continue to audit subcontract costs as part of its incurred cost audits and report any deficiencies found in the contractor's system to the ACO for resolution.

- **Contractor Business Systems Rule**

A proposed rule is out for public comment. When implemented, the revised policy will clearly define DCMA/DCAA responsibility with respect to each Agency's role in assessing and determining status of the contractor's Accounting, Estimating, Earned Value Management, Material Management and Accounting, Purchasing and Property systems.

DCMA and DCAA are well underway in their implementation of these changes to improve alignment and reduce overlap. As other potential areas for efficiency are identified by the two agencies and coordinated with this office, we will keep you apprised of any additional initiatives undertaken.

A handwritten signature in black ink, appearing to read 'S. Assad', with a large, stylized flourish extending to the right.

Shay D. Assad
Director, Defense Procurement
and Acquisition Policy