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

AUG 17 2012

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Class Deviation – DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals

The attached Director of Defense Procurement and Acquisition Policy (DPAP) memorandum (same subject, dated July 24, 2012) provides that for the purposes of satisfying the audit requirements at Federal Acquisition Regulation (FAR) 4.804-5(a)(12), 42.705-1(b)(2) and 42.705-2(b)(2)(i), Department of Defense contracting officers shall continue to rely on either a DCAA audit report or a DCAA memorandum. This document should provide that, based on a risk assessment and a proposal adequacy evaluation, DCAA did not select it for further audit in accordance with its policy which can be found in the attachment to DPAP's memorandum.

This class deviation is effective immediately and remains in effect until incorporated into the FAR or DFARS or is otherwise rescinded.

My point of contact for this deviation is Denise Randolph. She can be reached on (703) 614-9767 or via Denise.Randolph@navy.mil.

Elliott B. Branch
DASN(AP)

Attachment: As stated

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OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION, TECHNOLOGY AND LOGISTICS

JUL 24 2012

In reply refer to
DARS Tracking Number: 2012-O0013

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 PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE (CONTRACTING)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Class Deviation—DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals

Effective immediately, for the purposes of satisfying the audit requirements at FAR 4.804-5(a)(12), 42.705-1(b)(2), and 42.705-2(b)(2)(i), Department of Defense contracting officers shall continue to rely on either a DCAA audit report or a DCAA memorandum documenting that, based on a risk assessment and a proposal adequacy evaluation pursuant to FAR 42.705-1(b)(1)(iii), DCAA deemed the incurred cost proposal to be low-risk and did not select it for further audit in accordance with the attached DCAA Policy dated July 6, 2012.

This DCAA policy represents a continuation of a risk-based sampling process in use since 1994. It remains a prudent use of resources and contains adequate safeguards against unacceptable risk, while still ensuring that the contracting officer will have all the information needed for contract closeout.

This deviation remains in effect until it is incorporated into the FAR or DFARS or is otherwise rescinded. My point of contact is Mr. Mark Gomersall who may be reached at 571-372-6099, or mark.gomersall@osd.mil.

Richard Ginman
Director, Defense Procurement
and Acquisition Policy

Attachment:
As stated

DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

OFFICE OF THE DIRECTOR

July 6, 2012

MEMORANDUM FOR DIRECTOR, DEFENSE PROCUREMENT AND ACQUISITION POLICY

SUBJECT: Modification of DCAA Process for Sampling Low-Risk Incurred Cost Proposals

As coordinated with your office, enclosed are our policies and procedures for sampling low-risk incurred cost proposals. The policies and procedures will be implemented upon your issuance of the related Class Deviation. We believe this process will provide for a more effective oversight approach without significantly increasing risk to the Government. Should you have any questions, please contact me at (703) 767-3200.

for Patrick J. Fitzgerald
Director

Enclosure:
Policy and Procedures

DCAA Policy and Procedures for
Sampling Low-Risk Incurred Cost Proposals

POLICY

All incurred cost proposals should be evaluated upon receipt for adequacy, in accordance with FAR 52.216-7, using the DCAA Incurred Cost Proposal Adequacy checklist. If the incurred cost proposal is not adequate and the deficiencies cannot be remedied with minor effort, the proposal will be returned to the contractor with written instructions on required corrective actions, in accordance with CAM Chapter 6.

All adequate annual incurred cost proposals exceeding $250 million in auditable dollar value (ADV) will be audited. All other incurred cost proposals received and determined to be adequate will be assessed for risk. All adequate high-risk proposals will be audited.

To address the current significant backlog, low risk adequate annual incurred cost proposals (using criteria below) submitted by contractors with auditable dollar value (ADV) of $1 million or less and received prior to October 1, 2011, will not be selected for audit. A Memorandum for Contracting Officer will be issued as discussed in the following paragraphs.

CRITERIA FOR CLASSIFICATION OF PROPOSALS TO HIGH-RISK AND LOW-RISK POOLS

For all proposals with $250 million or less in ADV, FAOs should classify risk as high or low for all adequate incurred cost proposals on hand where an audit (field work) has not been started, using the criteria specified below:

Low Risk Proposal Criteria

- We have prior incurred cost audit experience (i.e., an incurred cost audit has been performed).
- No significant audit leads or no other significant risk has been identified (any known business system deficiencies that would have a significant impact on the final indirect rate proposal for this FY, significant risk identified by the contracting officer, etc.).
- No prior significant total exception dollar reported in the last year audited. Significant exception dollars are defined by strata in the table below:

Low-Risk Adequate Proposals by Auditable Dollar Value (ADV)	Amount of Previous Exception Dollars (including Corporate, Home Office, etc) Classified as Significant (gov. impact)
$1M or less	$15,000
$1M to $15 Million	$25,000
$15M to $50 Million	$55,000
$50 Million to $250 Million	$100,000

DCAA Policy and Procedures for
Sampling Low-Risk Incurred Cost Proposals

LOW-RISK SAMPLING PERCENTAGES

Low-risk proposals will be selected for audit using sampling techniques based on the guidance below. An adequacy evaluation must be performed prior to designating a proposal as low risk. No other audit procedures will be applied to the remaining low-risk proposals not selected for audit.

Low-Risk Adequate Proposals by Auditable Dollar Value (ADV)	Low-Risk Sampling Percentages
$1M or less received after 9/30/2011	1%
$1M to $50 Million	5%
$50 Million to $100 Million	10%
$100 Million to $250 Million*	20%
Greater than $250 Million	100%

* A mandatory incurred cost audit will be performed once every three years for all proposals greater than $100 million up to $250 million. If a contractor does not have a proposal selected for audit in the 20 percent sample in a three-year cycle, the FAO shall select a proposal for audit the third year after the last audit. This selection is in addition to those incurred cost proposals selected for audit in the 20 percent sample for any given Government fiscal year.

CLOSURE METHODS TO BE USED FOR PROPOSAL CONSIDERED LOW-RISK NOT SELECTED FOR AUDIT

The following procedures will be performed on the proposals in the low-risk pool that were not selected in the sample for audit:

- Issue a Memorandum for Contracting Officer, including the key steps performed from the adequacy checklist (see enclosed proforma adequacy determination letter).

- Low-risk proposals not selected in the sample for audit should be closed with disposition code "N – Assignment completed but no formal report issued" as of the date of the memorandum to the contracting officer. The proposal ADV should be reported in the dollars examined field so that the Agency can determine the value of incurred cost proposals that were not audited. Costs questioned and total exception dollars will be reported as zero. The Audit, Desk Review, or No Audit field entry will be "N = No Audit" and the Audit Determined/Negotiated field entry will be "N = Negotiated."

PROCEDURES

- Upon receipt of this guidance, the FAO should identify all incurred cost proposals on hand for which the audit has not started.

DCAA Policy and Procedures for
Sampling Low-Risk Incurred Cost Proposals

- Perform an adequacy determination, if not already completed.
- All adequate incurred cost proposals exceeding $250 million in ADV will be audited.
- Proposals less than or equal to $250 million received and determined adequate will be assessed for risk. The auditor will determine whether the remaining incurred cost proposals should be included in the high-risk pool or low-risk pool using the attached risk assessment worksheet.
- All adequate low-risk incurred cost proposals less than or equal to $1 million received prior to October 1, 2011 will not be audited or sampled. Draft memorandum to the contracting officer.
- All adequate incurred cost proposals included in the high-risk pool will be audited.
- All other adequate low-risk incurred cost proposals will be randomly selected for audit based on the following initial sampling percentages. Regional offices in coordination with OWD will determine and document sampling plan.
    - One percent (1%) of the incurred cost proposals up to $1 million received after September 30, 2011, and included in the low-risk pool, will be randomly selected for audit.
    - Five percent (5%) of the incurred cost proposals of $1 million to $50 million included in the low-risk pool will be randomly selected for audit.
    - Ten percent (10%) of the incurred cost proposals of $50 million to $100 million included in the low-risk pool will be randomly selected for audit.
    - Twenty percent (20%) of the incurred cost proposals of $100 million to $250 million included in the low-risk pool will be randomly selected for audit. A mandatory incurred cost audit will be performed once every three years.
- Draft a memorandum to the contracting officer for those low-risk proposals not selected for audit unless the FAO has multiple proposals from the same contractor, then follow the procedures below.
- If a contractor has more than one incurred cost proposal in the initial low-risk pool, the following procedures will be used:
    - If no proposals for the contractor are selected in the sample for audit, close out all adequate incurred cost proposals that were in the sampling pool for that contractor using the procedures discussed above.
    - If one or more proposals are selected in the sample for audit, do not disposition any of the other proposals for the contractor until the audit is completed.
        - If significant questioned costs are found, audit all other incurred cost proposals that were in the sampling pool for the contractor using multi-year audit techniques.
        - If no significant questioned costs are found, close out all other proposals that were in the sampling pool using the procedures discussed above.