

## Sineath CIV John

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**From:** Sineath CIV John  
**Sent:** Wednesday, November 10, 2010 9:20 AM  
**To:** Adkins SSgt Garvey M; Alexander MSgt Darrin T; Baker MSgt Daniel M; Boone GySgt Nicole C; Boyd MGySgt Bryan E; Britton GySgt Dewan C; Brunson CIV Janet C; Cerka CIV Frances C; Chase Capt Kenny K; Clark GySgt Frederick A; Coetzee CIV Allie; Corcoran LtCol Eric M; Crawford Civ Dale A; Dobbins GySgt Michael W; Drury CIV Deborah A; Gaylor CIV Sherry F; Gubitti Civ Cynthia A; Hake CIV Peggy L; Hart Capt Charles N; Henley CIV June R; Higa CIV Sakura K; Ingle Capt Steven L; Johnson CIV Clark W; Jones CIV Shakara M; Jones MSgt Donald J; King Maj Stephanie D; Knudsen CIV Deborah K; Leach CIV Andrea V; Lemmond CIV Barbara G; Long Capt Eric J; Lovett-Black Civ JoAnna; Matthews CIV Layton D; Mendez SSgt Gilbert; Michael Maj Ronnie D; Mohead MSgt Kacy M; Morris CIV Robert A; Mullen CIV Melvin T; Navarro GySgt Hector M; Owens SSgt Brad E; Patterson SSgt Brent J; Payne CIV Mark H; Pendley CIV Larry F; Polesnak Maj Stephanie M; Powell CIV Hollis H; Rabassi Maj Christopher E; Rego CIV Arthur J; Renfroe MSgt Telly J; Robinson LtCol Macon R (MEF FWD G-4); Schmid LtCol Steven J; Sherman Maj Brad J; Smith CIV Peggy L; Stahl Maj Scott A; Stewart GySgt Robert D; Stroh CIV Linda L; Toncu SSgt Cristian; Tuzon MSgt Norman (MEF FWD G-4); Washington CIV Connie A; Watts GySgt Will W  
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**Subject:** APM 11-04 Increased Thresholds for Price Proposal Audits  
**Attachments:** dcaa-20101018.pdf  
**Signed By:** john.sineath@usmc.mil

All,

### BACKGROUND:

The attached letter from Defense Contract Audit Agency (DCAA) addresses the recent changes in DFARS Procedures, Guidance and Information (PGI) that revises audit thresholds and guidance for obtaining audit assistance by DCAA (PGI 215.404-2(c)). The PGI limits contracting officers' requests for DCAA audit assistance for prime contracts or subcontracts to Fixed-Price proposals exceeding \$10 million and to Cost-Type proposals exceeding \$100 million.

### POLICY:

- a. Contracting officers shall limit requests for DCAA audit assistance to Fixed-Price proposals over \$10 million and to Cost-Type proposals over \$100 million, unless there are exceptional circumstances explained in the request for audit.
- b. This policy is effective immediately and remains in effect until rescinded. The changes to CMPG reflecting these revised thresholds will be incorporated in the next CMPG version release.

### PROCEDURES:

- a. Contracting officers should not request DCAA audit assistance for proposed contracts or modifications in an amount less than \$10 million for Fixed-Price proposals and to Cost-Type proposals less than \$100 million. An exception may be made when a reasonable pricing result cannot be established because of a lack of knowledge of the particular offeror; or sensitive conditions (e.g., a change in, or unusual problems with, an offeror's internal systems).

b. The PGI thresholds noted above apply to the total proposal value even though the parts subject to the audit may not. In addition, the revisions to the PGI do not impact the requirement for cost or pricing data as that threshold remains at \$700,000 as of October 1, 2010.

c. CMPG 3.6.1.2 contains the Procedures for Requesting Field Pricing Support.

d. Further details are provided in the attachment.

Please ensure this guidance is provided to all appropriate acquisition personnel.

R/cc

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IN REPLY REFER TO

PSP 730.5.1.A/2010-034

October 18, 2010  
10-PSP-030(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**  
**HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA**

**SUBJECT:** Increased Thresholds for Price Proposal Audits

**SUMMARY**

As part of the Department's efforts to appropriately align DCAA audit resources to those areas with the greatest risk, the DFARS Procedures, Guidance and Information (PGI), has been revised to limit contracting officers' requests for DCAA audit assistance to Fixed-Price proposals exceeding \$10 million and Cost-Type proposals exceeding \$100 million, unless there are exceptional circumstances explained in the request for audit. When future requests for audit are associated with prime contractor proposals below the revised thresholds, FAO management personnel should generally refer the requestor to the Defense Contract Management Agency (DCMA) for appropriate field pricing assistance. The revised thresholds do not apply to assist audit requests requested by another DCAA office. Assist audit requests below the PGI thresholds shall be completed using appropriate audit procedures for incorporation into the higher level audit report. Auditors will complete all in-process price proposal audits that are below the revised thresholds. The revisions to the PGI do not impact the requirement for cost or pricing data as that threshold remains at \$700,000 as of October 1, 2010.

**BACKGROUND**

Recently, oversight organizations have recommended that the Department of Defense and DCAA assess the use of DCAA resources to ensure the DCAA audit effort is focused on the areas with the greatest risk to the taxpayer. One of the priorities undertaken by DCAA this year was to better align workload requirements with available resources. Coordination within DoD resulted in agreement that DCAA should target its resources on high risk proposals to best serve our stakeholders.

**GUIDANCE**

Effective September 17, 2010, DFARS, PGI 215.404-2(c), now limits contracting officer requests for audit services to Fixed-price proposals over \$10 million and Cost-Type proposals over \$100 million, unless there are exceptional circumstances explained in the request for audit (see enclosure).

SUBJECT: Increased Thresholds for Price Proposal Audits

When a request for audit services related to a prime contractor price proposal under the revised threshold is received, the supervisory auditor or branch manager should refer the requesting official to DCMA for field pricing assistance. However, if the request is based on exceptional circumstances, auditors should coordinate with the requester in order to gain a thorough understanding of the exceptional circumstances that necessitate an audit. This discussion should be documented in the working papers.

The revised policy thresholds do not apply to assist audit requests received from another DCAA office. Assist audit requests below the PGI thresholds shall be completed using appropriate audit procedures for incorporation into the higher level audit report. In these instances, the higher level auditor or contracting officer has determined that the risk is such that audit procedures should be performed on the subcontract proposal. Therefore, the prime/higher level auditor will continue to evaluate each subcontract proposal and supporting data to determine the need for any subcontract/intracompany assist audits, as discussed in CAM 9-104 and 9-105.

The PGI thresholds noted above apply to the total proposal value. Therefore, auditors should satisfy requests for audits of part(s) of a proposal as long as the total proposal value exceeds the related threshold even though the parts subject to audit may not. In addition, auditors will continue to assist DCMA in their pricing analysis, if deemed necessary, by responding to requests for forward pricing rate proposal audits or available cost or rate data even if the FAO expects few or no price proposals over the audit thresholds.

#### **CLOSING REMARKS**

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Mr. Mark Owen, Program Manager, Pricing and Special Projects Division, at (727) 289-3521 or e-mail at [DCAA-PSP@dcaa.mil](mailto:DCAA-PSP@dcaa.mil).

/Signed/

Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

Enclosure:

DFARS, PGI 215.404-2

DISTRIBUTION: C

## DFARS Procedures, Guidance, and Information

### PGI 215.404-2 Information to support proposal analysis.

- (a) Field pricing assistance.
  - (i) The contracting officer should consider requesting field pricing assistance (See PGI 215.404-2(c) for when audit assistance should be requested) for—
    - (A) Fixed-price proposals exceeding the cost or pricing data threshold;
    - (B) Cost-type proposals exceeding the cost or pricing data threshold from offerors with significant estimating system deficiencies (see DFARS 215.407-5-70(a)(4) and (c)(2)(i)); or
    - (C) Cost-type proposals exceeding \$10 million from offerors without significant estimating system deficiencies.
  - (ii) The contracting officer should not request field pricing support for proposed contracts or modifications in an amount less than that specified in paragraph (a)(i) of this subsection. An exception may be made when a reasonable pricing result cannot be established because of—
    - (A) A lack of knowledge of the particular offeror; or
    - (B) Sensitive conditions (e.g., a change in, or unusual problems with, an offeror's internal systems).
- (c) Audit assistance for prime contracts or subcontracts.
  - (i) The contracting officer should consider requesting audit assistance from DCAA for—
    - (A) Fixed-price proposals exceeding \$10 million;
    - (B) Cost-type proposals exceeding \$100 million.
  - (ii) The contracting officer should not request DCAA audit assistance for proposed contracts or modifications in an amount less than that specified in paragraph (c)(i) of this subsection unless there are exceptional circumstances explained in the request for audit. (See PGI 215.404-2(a)(i) for requesting field pricing assistance without a DCAA audit.)
  - (iii) If, in the opinion of the contracting officer or auditor, the review of a prime contractor's proposal requires further review of subcontractors' cost estimates at the subcontractors' plants (after due consideration of reviews performed by the prime contractor), the contracting officer should inform the administrative contracting officer (ACO) having cognizance of the prime contractor before the review is initiated.

- (iv) Notify the appropriate contract administration activities when extensive, special, or expedited field pricing assistance will be needed to review and evaluate subcontractors' proposals under a major weapon system acquisition. If audit reports are received on contracting actions that are subsequently cancelled, notify the cognizant auditor in writing.
- (v) Requests for audit assistance for subcontracts should use the same criteria as established in paragraphs (c)(i) and (c)(ii) of this subsection.