



Simply a Better Approach

## DoD Raises Threshold for DCAA Proposal Audits

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*(excerpts from original article written by Darrell J. Oyer)*

The following is a direct quote from the DCAA guidance on this topic (emphasis added):

*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.*

### **What could this really mean?**

It might mean that DoD is starting to push DCAA out of the proposal evaluation business.

Recently DCAA has found many proposals to be “*not acceptable as a basis for negotiating a price,*” which is bogging down the system. DCAA auditors (especially the extra 500 to 1000 they have recently hired or are hiring) are not educated or trained in estimating . . . their education and training is in auditing and accounting. We have all experienced DCAA's blind adherence to historical data for estimating purposes.

One of DCAA's Assistant Directors advocated DCAA doing **no proposal evaluations**. Instead, his belief was that **DCAA should focus on defective pricing audits to get the same (or more) money back after-the-fact**. He opined that there would be a better payback because if costs are challenged at the proposal stage, a negotiation may not realize all the DCAA "savings/reductions." However, if DCAA challenged costs as defective pricing, a contracting officer would be more likely to support this action **because no contract award is being held up due to challenging the costs**.

### **Does this help or hurt you?**

We suggest that you don't pull out those party hats and pop those champagne corks quite yet.

Proposals might be easier to negotiate, but the dangers of defective pricing still loom and with some serious consequences. The onus has been shifted squarely to the shoulders of the contractor to make sure that all i's are dotted and t's crossed in the negotiation with the contracting officer.

Example Issue:

### POTENTIAL FOR UNDISCLOSED DATA IS INCREASED

Under the **previous** PGI review monetary threshold, DCAA acted as a gate keeper on your proposals in many ways, and kept you, the contractor out of hot water on the front end. **Now in consideration of the higher threshold**, and without DCAA issuing those pesky audit findings, although it feels as if your and the contracting officer's job has been made easier, the possibility of more and inadvertent undisclosed data is increased. For example, when DCAA performs a proposal evaluation, they might note a lack of updated data or inaccurate or inconsistent data and report it in their findings. As a result, when negotiations are completed, that data will have been disclosed and there can be no defective pricing due to that incident.

### **Solution:**

Contractors **MUST** be even **more diligent** than before in disclosing data, to the point of over-disclosure in order to protect themselves. This can certainly work to your advantage. Don't be lulled into complacency by a contracting officer who views additional information as "slowing the process." **Stick to your guns** and remind them of your potential exposure on the back end for a defective pricing audit. In all reality, over-disclosure will not likely slow negotiations, but will provide you added protection when DCAA eventually does a defective pricing audit. In addition, consider external independent reviews of your proposal disclosures and pricing assumptions for adequacy and consistency with FAR and CAS provisions by a company such as BKH.

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