

## About that DCAA Audit Guidance

Written by Nick Sanders

Wednesday, 23 September 2015 00:00

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Totally a coincidence. *Totally*.

But just a few days after we posted a couple of articles about the lack of DCAA audit guidance being posted on the DCAA website ... one appeared!

DCAA Memo for Regional Directors (MRD) [15-PPD-005\(R\)](#) , dated 8/27/2015 has been posted. It announces what we already told our readers: there is a new Incurred Cost Adequacy Checklist. In the words of the MRD –

The revised IC Proposal Adequacy Checklist ensures that adequacy considerations are based on the Allowable Cost and Payment Clause requirements for Final Indirect Cost Rates (FAR 52.216-7(d)(iii)). The checklist steps were clarified to ensure that the effort expended is based on determining whether the proposal is auditable and whether the audit team should accept the audit engagement rather than expending effort on performing work generally done during the IC audit. In addition, the revised IC Proposal Adequacy Checklist now contains an overall determination at the end of the checklist where auditors will document whether the IC proposal is adequate or inadequate and provide supporting rationale.

That's actually pretty good news. We have complained both publicly and privately about the "blurred lines" between the adequacy assessment and the actual audit steps associated with determining whether or not claimed contractor costs are allowable, allocable, and reasonable. Anything that clarifies the distinction is welcome, as far as we are concerned.

Another piece of good news in the MRD is the reinforcement (to auditors) that an Incurred Cost Submission (which really should be called a proposal to establish final billing rates, but whatever) can be determined to be adequate for audit even if it has some inadequacies within it. The MRD states –

In some cases, the audit team may determine that there are multiple inadequacies, but still determine that the IC proposal is adequate (acceptable to audit), while in other cases a single significant inadequacy alone could render the proposal inadequate (unacceptable to audit). Audit teams should use their professional judgment in determining the significance of any

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specific missing/inadequate data when making a determination on the proposal's adequacy ...

This kind of stuff is why we all need to see DCAA audit guidance when it is issued to the auditors. This kind of stuff helps contractors understand expectations—expectations for both auditor and auditee. This kind of stuff helps avoid adversarial tension and, in the long run, tends to reduce the number of disputes. We just wish DCAA would publish more of the guidance it issues.

And speaking of unreleased audit guidance, after our last whining article, complaining about the dearth of released audit guidance, some kind soul sent us a copy of MRD 15-OTS-021(R), dated 7/23/2015. That MRD deals with the pesky problem of offsetting debits and credits in a transaction universe, and how to cleanse the offsets before selecting a transaction sample. Thank you kind soul!

As we suspected, the correct answer is not to add the debits and credits together to calculate an “absolute value” of questioned costs—even though doing so undoubtedly creates more questioned costs to report to HQ. (Sorry, FD.)

We have asked Tech Guru Mark to add that particular MRD to the Knowledge Resources page on this website, for those interested in the topic. (Apparently the topic is also covered in the DCAA Variable Sampling Guidance, available to auditors on the DCAA intranet. Unfortunately, we don't have access to the DCAA intranet, which is why we need to see this piece of guidance.)

Do you want DCAA to publish all releasable audit guidance on its website in accordance with the direction from the Commander-in-Chief? If you do, you might consider sending a polite and respectful email to Ms. Anita Bales, DCAA Director, regarding the subject.