

DCAA Audit Guidance: Inadequate Cost/Price Analysis

Written by Nick Sanders

Wednesday, 16 January 2019 00:00

In September, 2017, DCAA issued audit guidance that discussed evaluations of prime contractor cost/price analyses of proposed subcontractor costs. We didn't discuss it because it didn't really merit discussion; at its core it was a restatement of requirements found in FAR Part 15 (at 15.404). Prime contractors that already knew about those requirements and that were complying with them were not going to have significant issues with the "new" audit guidance; so we refrained from offering comment.

Now DCAA has [issued](#) revised audit guidance and it's worth discussing.

MRD 18-PSP-006(R), dated November 27, 2018 (but published in January, 2019) addresses "incomplete or inadequate prime contractor cost or price analyses." The objective of the MRD is to help auditors avoid classifying proposed subcontractor costs as being "unsupported" simply because the auditors don't like the cost/price analyses that the prime contractor performed. If the prime's analyses are flawed, the MRD directs the auditors to attempt to perform alternate procedures; proposed subcontractor costs should be classified as "unsupported" *only* if those alternate procedures fail to provide sufficient evidence to support an audit conclusion.

The MRD also directs auditors who are forced to use such alternate procedures to report the dollars associated with incomplete or inadequate cost/price analyses to the CO as a "material noncompliance" with FAR requirements. Readers should note that there is no such thing as a "material noncompliance" with FAR requirements and any such finding carries with it exactly zero consequences. Though, having said that, we suppose that piling up a bunch of such reported "material noncompliances" is not going to make the next Estimating System review go any easier.

What are these alternate procedures that the auditors are supposed to perform?

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Create a decrement based on purchase order history

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Create a decrement based on comparisons of prior subcontractor proposals to the cost/price

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analyses of those proposals

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Create a decrement based on comparisons of prior subcontractor proposals to the actual negotiated values of the subcontractors

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Request an assist audit of the subcontractor's proposal by the DCAA audit team with cognizance over the subcontractor

In discussing this new guidance with professional subcontractor cost/price analysis guru Dan C., Dan noted that *prime contractors can use the exact same procedures* in their cost/price analyses of received subcontractor proposals. In other words, if your cost/price analyses of a subcontractor proposal isn't going well, see if any of the procedures listed above help get you where you need to go. If so, then you will have a complete and/or adequate subcontractor cost/price analysis to share with your customer (and DCAA), thus minimizing DCAA's need to implement the alternate procedures when performing audits of your proposal. (

Thanks Dan!

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