



## DCMA Manual 2201-03

# Final Indirect Cost Rates

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**Office of Primary Responsibility**

**Indirect Cost Control Capability**

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Cleared for public release

**Implements:**

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DCMA-INST 125, "Final Overhead Rates," November 8, 2016  
DCMA-INST 128, "Disallowance of Costs," December 4, 2013

**Internal Control:**

Process flow and key controls are located on the Resource Page

**Labor Codes:**

Located on the Resource Page

**Resource Page Link:**

<https://360.dcm.mil/sites/policy/IC/SitePages/2201-03r.aspx>

**Approved by:**

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**Purpose:** This issuance, in accordance with the authority in DoD Directive 5105.64:

- Implements policy established in DCMA Instruction 2201
- Provides and defines procedures and responsibilities for obtaining certified final indirect cost rate proposals and appropriately settling final indirect rates
- Provides and defines procedures for assessment of penalties and interest related to expressly unallowable costs contained in a final indirect cost rate proposal
- Provides and defines procedures for resolving cost allowability issues

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## SECTION 1: GENERAL ISSUANCE INFORMATION

**1.1. APPLICABILITY.** This Manual applies to all DCMA activities and personnel unless higher-level issuances (e.g., Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), DoD guidance, or laws) or agreements take precedence.

**1.2. POLICY.** It is DCMA policy to seek and carry out applicable compliance with the FAR and DFARS to:

- a. Establish final indirect cost rates;
- b. Disallow costs where applicable;
- c. Make penalty assessments where applicable;
- d. Perform the above noted activities pursuant to the:
  - (1) Terms of Government contracts,
  - (2) Requirements of all other applicable laws or regulations, and
  - (3) Official DCMA issuances; and
- e. Execute this Manual in a safe, efficient, effective, and ethical manner.

## SECTION 2: RESPONSIBILITIES

**2.1. EXECUTIVE DIRECTOR, CONTRACTS.** The Executive Director, Contracts, must:

a. Ensure applicable management officials throughout the agency understand the value of settling final indirect cost rates to include being responsive to audit findings and recommendations regarding unallowable costs.

b. Ensure adequate training is provided to the DCMA contracting community relative to guidance covered in this Manual.

c. Ensure appropriate databases are maintained to assist applicable agency management in the tracking of final indirect cost rates settlements to include tracking how audit reported unallowable costs are finally dispositioned.

**2.2. CONTRACT MANAGEMENT OFFICE (CMO) CONTRACTS DIRECTORS AND CORPORATE/DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER (CACO/DACO) GROUP DIRECTOR.** The appropriate Director must:

a. Provide written review/concurrence or non-concurrence when an administrative contracting officer (ACO) intends to grant a contractor an extension to a due date for an indirect cost rate proposal. This written review authority may be delegated to a position at least one level above the ACO. Hereinafter, the term ACO will include CACOs, DACOs, and ACOs who perform the Final Indirect Rate and/or Disallowance of Costs process.

b. Provide written review/concurrence when an ACO intends not to accept a Defense Contract Audit Agency or other auditors (DCAA/A) unilateral rate recommendation.

c. Ensure ACOs properly seek resolution of disagreements with DCAA auditors as governed by the DCMA “Boards of Review (BoR) General Practice” guide found on the main resource page of DCMA Instruction (DCMA-INST) 2201. However, no BoR is required to evaluate an ACO disagreement about the adequacy of auditing practices used by host nation auditors. Otherwise, all other ACO actions subject to a BoR still apply whether audit services are provided by DCAA or a host nation auditor.

d. Review the decision-making process leading to the ACO issuing a notice of intent to disallow costs.

e. Review the decision-making process leading to the ACO withdrawing a notice of intent to disallow costs or executing a final decision.

f. Ensure the ACO, in preparing the contracting officer final decision (COFD), seeks advice from assigned legal counsel, the Contract Disputes Resolution Center (CDRC), and other required advisors pursuant to DCMA Manual (DCMA-MAN) 2501-09, “Contract Claims and Disputes.”

- g. Provide review comments, concurrence or nonconcurrence, along with a signature verifying review of an ACO's Pre-Negotiation Objective Memorandum (PNOM); and may provide delegation of management-level review of a PNOM to a level at least one level above the ACO.
- h. Verify ACOs follow the procedures for resolving and dispositioning reportable audits as described in DCMA-MAN 2201-04, "Contract Audit Follow Up (CAFU)," when reviewing a PNOM or Price Negotiation Memorandum (PNM).
- i. Provide review comments, concurrence or nonconcurrence, and a signature verifying review of an ACO's rate agreement and PNM prior to ACO signature on a rate agreement document; and may provide delegation of management-level review of these actions to a level at least one level above the ACO.
- j. Establish and maintain internal controls to ensure the accuracy of ACO records in required databases.

**2.3. ADMINISTRATIVE CONTRACTING OFFICERS.** An ACO will be responsible for fully complying with all applicable guidance in this Manual. ACOs must take steps to:

- a. Ensure the contractor submits the certified final indirect cost rate proposal within 6 months of the contractor's fiscal year (CFY) end, grants due date extensions, tracks late or inadequate proposals, and establishes unilateral rate determination letters.
- b. Request and receive a DCAA/A or host nation auditors audit of the contractor's certified final indirect cost rate proposal, accept a DCAA/A low-risk memorandum or waive an audit if certain conditions exist.
- c. Determine whether final indirect cost rates are ACO or DCAA/A determined.
- d. Use quick-closeout rates (QCR) where possible. In the first quarter of a Government fiscal year (GFY) where a CACO/DACO/ACO network exists, ACO must identify potential contracts for use of quick-closeout procedures as well as the applicable fiscal year. The ACO must provide the listing to the applicable CACO or DACO and the CACO or DACO should attempt to develop, negotiate or recommend indirect cost rates to use as QCR. The ACO must use CACO or DACO negotiated QCR. Where no CACO/DACO/ACO network exists, ACO must identify a list of contracts for potential quick closeout and provide to the contractor with goal to obtain contractor agreement. The ACO must develop and negotiate QCR.
- e. Develop a PNOM pursuant to FAR 15.406-1.
- f. Negotiate final indirect cost rates within 27 or 36-month cycle, for major and non-major contractors respectively.
- g. Properly document the final indirect rate agreements in a PNM, including an affirmative statement that the ACO agreed or disagreed with each finding, assessed or waived any penalties,

and assessed interest if applicable. Upon supervisory review and concurrence of the PNM, the ACO shall distribute and execute the final rate agreement. The ACO shall send the PNM and executed final rate agreement to each affected contracting office and DCAA/A.

h. Resolve and settle any unsettled audit determined rates and any applicable questioned direct costs.

i. Attempt to resolve all contractual issues in controversy by mutual agreement prior to the issuance of a claim pursuant to FAR 33.204 and FAR Subpart 42.8.

j. Store all final documents related to this action in all the mandatory DCMA databases as required by DCMA-MAN 4501-06, "Records Management.

## SECTION 3: PROCEDURES

### 3.1. IDENTIFY DETERMINATION AUTHORITY AND OBTAIN ADEQUATE AND TIMELY CERTIFIED FINAL INDIRECT COST RATE PROPOSAL.

**a. Identify Authority.** The ACO must follow the procedures stipulated in FAR 42.705(a) to determine whether the rates are subject to determination by the ACO or DCAA. In some instances, where final indirect cost rate settlements are classified as “auditor determined,” the contractor will not agree to exclude auditor questioned costs from inclusion in final indirect rates. Thus, the contractor will not sign a rate agreement for the DCAA auditor. When this occurs, DCAA will attach a DCAA Form 1, “Notice of Contract Costs Suspended and/or Disapproved,” to an incurred cost audit report that is provided to the ACO. The rate settlement then switches from being “auditor determined” to “ACO determined.”

**b. Timely Proposal.** The ACO must ensure the contractor submits the required certified final indirect cost rate proposal within 6 months following the completion of a CFY as required by FAR 52.216-7(d)(2)(i). This requirement applies to all fiscal years that cover the contractual period of performance for any contract containing FAR clause 52.216-7(d)(2)(i).

(1) The ACO must only grant contractors due date extensions under exceptional circumstances as explained in FAR 52.216-7(d)(2)(i).

(2) ACOs must obtain written review/concurrence or non-concurrence from one level above the ACO, and notify DCAA/A, prior to granting or denying the contractor an extension to the proposal due date.

(3) If the ACO grants or denies a time extension, the ACO must prepare a written memorandum for record (MFR) documenting the circumstances and rationale for approving or denying the extension. The ACO must provide a copy of the MFR to DCAA/A. Additionally, the ACO must provide written notification to the contractor pursuant to FAR 42.705-1(b)(1)(ii) and FAR 52.216-7(d)(2)(i).

**c. Late or Inadequate Proposal.** If DCAA/A notifies the ACO that the contractor’s certified final indirect cost rate proposal is late or inadequate, the ACO must take steps to obtain an adequate proposal from the contractor.

(1) The ACO must immediately follow up the DCAA/A notice with a letter to the contractor. The ACO letter must direct a response within 30 business days after confirmed receipt and provide the contractor with the two following options: i) notify the ACO of how the contractor will request a time extension, or ii) provide the ACO and DCAA/A auditor with an adequate certified final indirect cost rate proposal.

(2) If the contractor does not reply to the ACO’s first notification letter by the established suspense date, then the ACO must send out a second notification letter. The second ACO letter must direct a response within 30 business days after confirmed receipt and instruct the contractor that an adequate certified final indirect cost rate proposal must be provided.

Additionally, the second ACO letter must inform the contractor that if an adequate certified final indirect cost rate proposal is not provided, the ACO will proceed to unilaterally establish final indirect rates pursuant to FAR 42.703-2 (c).

(3) Assuming no time extension was previously granted pursuant to FAR 52.216-7(d)(2)(i), the ACO may begin to unilaterally establish final indirect rates after the due date if an adequate certified final indirect cost rate proposal has not been received. In some cases, use of a certification waiver may prevent the need for unilaterally establishing rates as explained in FAR 42.703-2(b) and (c). The ACO must begin to unilaterally establish final indirect cost rates after 6 months of interaction (12 months after the CFY ending date) if during the same interaction period no time extension or certification waiver has been granted. Additional guidance for both interactions with the contractors and the establishment of unilateral indirect cost rates can be found as business practices on the DCMA-MAN 2201-03 resource page.

**d. Contractor Lost Records or Out of Business.** If a contractor has submitted a final indirect cost rate proposal but the contractor's records have been lost or destroyed, the ACO must instruct the contractor to obtain copies of third party records and/or other forms of corroborating evidence to help demonstrate that the costs reported in a final indirect cost rate proposal are reasonable, allowable, and allocable per FAR Part 31 guidelines.

(1) If the ACO is unable to fully evaluate contractor-provided documents, the ACO must request the assistance of auditors and/or technical specialists to help review the evidence. The ACO has final authority to decide whether the contractor has supplied sufficient evidence to support the costs/rates submitted in a final indirect cost rate proposal. The ACO also has the authority to disallow costs through cost adjustments where the ACO believes that the provided evidence does not support certain costs claimed in the final indirect cost rate proposal.

(2) Cases may arise where a contractor is no longer in business and DCAA/A cannot perform an audit of a final indirect cost rate proposal. Additionally, DCAA/A may have no audit experience with the contractor relative to proposed costs/rates or incurred costs/rates that have been submitted by the contractor in the past. In such cases, the ACO must take steps to unilaterally establish final indirect cost rates. Additional guidance for both interactions with the contractors and the establishment of unilateral indirect cost rates can be found as business practices on the DCMA-MAN 2201-03 resource page.

**3.2. OBTAIN A DCAA/A AUDIT.** The ACO must request and receive a DCAA/A audit report or advisory memorandum addressing the contractor's certified final indirect cost rate proposal. For international CMOs supported by a local Host Nation Contract Administration Services Audit Authority, applicable international agreements determine the specific role of the contract auditor. Thus, host nation auditors may be required instead of DCAA auditors. When an ACO requests an audit of a final indirect cost rate proposal, the ACO must be aware the subsequent audit report (supplied by DCAA/A) may report on matters relating both to direct contract costs and indirect costs. The DCMA-MAN 2201-03 resource page contains additional information on how to request audits from DCAA, host nation auditors, or other third party auditors. In some instances, auditors may identify matters where advice is also needed from



functional specialists. The ACO should then request advisory input from functional specialists as well.

### **3.3. ACCEPT A DCAA PROPOSAL ADEQUACY REVIEW IN LIEU OF AUDIT OR WAIVE AN AUDIT, AS APPROPRIATE.**

**a. Waiving a DCAA Audit.** The ACO may accept final proposed indirect rates based solely on a DCAA proposal adequacy review when a decision is made to waive an audit based on the following conditions:

(1) The ACO is not aware of any factors or circumstances that place a given final indirect cost rate proposal at risk for containing expressly unallowable costs as covered by FAR 42.709. Some sources for the ACO to identify potential costs risks are:

- (a) DCMA contract files.
- (b) Other DCAA audits.
- (c) Input from technical specialists.
- (d) Input from procurement contracting officers (PCOs).
- (e) Input from subcontractors.

(2) The auditor inquires about providing a low-risk memorandum in accordance with a Defense Procurement and Acquisition Policy (DPAP) Class Deviation #212-O0013, (DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals, July 24, 2012) explaining that the proposal was not selected for audit based on the following factors:

- (a) The auditor's adequacy review did not disclose any significant audit leads.
- (b) The auditor's adequacy review included a mathematical verification and a determination that the contractor's proposal was certified by its top management officials that the proposal does not include unallowable costs.
- (c) The auditor's overall assessment of risk placed the contractor's incurred cost proposal in a low-risk sampling pool.

**b. Receipt of Low-Risk Memorandum.** DCAA's low-risk memorandums typically include a fully executed final rate agreement. If a rate agreement is not attached to a DCAA low-risk memo, ACOs should request such from the auditors. However, in those cases when a DCAA low-risk memo is issued at the segment level of a large contractor, and the memo is issued prior to the final impact of corporate allocation or intermediate home office settlements, the ACO should provide written notification of the low-risk memo to the CACO, any applicable DACO, and any applicable ACO covering an Intermediate Home Office (IHO). The ACO should then proceed toward settlement of the indirect costs at the segment. Should the CACO or IHO DACO

complete settlement of corporate or intermediate home office costs prior to the ACO's resolution and disposition of the low-risk memo, the ACO must include the resulting final impact of the corporate or IHO cost allocations to the applicable segment being settled by the ACO. Where available, ACOs should request DCAA auditors to provide auditor prepared cumulative allowable cost worksheet (CACWS) if such is not attached to the low-risk memo.

(1) If the ACO receives a DCAA low risk memo along with a contractor signed rate agreement, the ACO must promptly distribute executed copies of the rate agreement pursuant to FAR 42.706 and update applicable databases.

(2) If the final rate agreement letter or the CACWS are not attached, the ACO must contact DCAA to request the missing attachments. If the ACO cannot retrieve the requested rate agreement document from DCAA in a reasonable amount of time, the ACO must accept the proposed rates as the final indirect rates for the applicable CFY(s). The ACO must document acceptance using a rate settlement agreement and explain the decision in an MFR. A template for a rate settlement agreement can be found on the DCMA-MAN 2201-03 resource page. A PNOM or PNM is not required. The ACO must promptly distribute executed copies of the rate agreement pursuant to FAR 42.706. The ACO must also document the date and method of transmittal of any documents sent to DCAA/A. Further, ACOs must document completion of the rate settlement in the appropriate databases.

### **3.4. USE OF QCR WHERE POSSIBLE.**

**a. Quick-Closeout Activities.** ACOs must proactively look for opportunities to negotiate the settlement of indirect costs, in advance of the determination of final indirect cost rates, for a specific contract or group of contracts. This process, known as "quick-closeout procedure," is to be pursued when possible in accordance with criteria found in FAR 42.708. However, where possible, the ACO should consider use of any current existing "DCMA Quick-Closeout Procedure Class Deviation" that can be found/linked on the resource page for DCMA-MAN 2201-03 or the resource page for DCMA-MAN 2501-07, "Contract Closeout." For more information on quick closeout procedures, see DCMA-MAN 2501-07.

(1) Where a CACO/DACO/ACO network exists, the ACO must use the DACO negotiated QCR, if established, or attempt to use the DACO recommended QCR. If the ACO does not use the DACO negotiated or recommended rates, the ACO must document the rationale for this decision.

(2) In cases where a DACO does not negotiate or recommend QCR, the ACO must develop and negotiate QCR.

**b. When No CACO/DACO/ACO Network Exists.** In the first quarter of a GFY, ACOs must identify a list of contracts for potential quick close and needing QCR. The listing of the potential quick-closeout contracts (QCCs) must be provided to the contractor (with the goal to obtain contractor agreement on the use of quick-closeout procedures for the listed contracts).

(1) Prior to negotiating QCR, the responsible ACO and DCAA/A auditors must discuss possible reasons for not using the quick-closeout procedure on some contracts; however quick-closeout procedures should be used to settle rates for at least some contracts. Refer to the “QCO Risk Assessment” spreadsheet on the DCMA-MAN 2201-03 resource page for further discussion of contract risk.

(2) Once an agreement is reached for the affected contract(s), the ACO must develop the QCR and prepare a PNOM. The PNOM may be tailored to fit the specific requirements of quick-closeout procedures. ACOs must obtain management review/concurrence with the PNOM from the appropriate CMO Contracts Director or their designee before entering into negotiations. See guidance on PNOM development in paragraph 3.7.

(a) A risk assessment addressing the criteria found in FAR 42.708(a)(3) must be covered in the PNOM. If the “QCO Risk Assessment” spreadsheet is used, the PNOM must summarize the risk assessment conclusion and cross reference to the analysis performed within the “QCO Risk Assessment” spreadsheet job aid.

(b) ACOs are encouraged to use the “QCO Risk Assessment” spreadsheet on the DCMA-MAN 2201-03 resource page. This spreadsheet can be used as a supplement to the risk assessment narrative provided in a PNOM.

(3) During negotiations the ACO must make the contractor aware of how the indirect rates used in quick-closeout procedures must “not be considered a binding precedent when establishing the final indirect cost rates for other contracts” as explained in FAR 42.708(c). The ACO must document the quick-closeout negotiation using a written rate agreement and PNM. See guidance on PNM development in paragraph 3.9. of this Manual.

(a) The PNM may be tailored according to training or job aids found on the DCMA-MAN 2501-07 resource page.

(b) An ACO must obtain Contracts Director, or a designee, supervisory review/concurrence of the written rate agreement and PNM as directed in paragraph 3.9.c. of this Manual.

(4) The ACO responsible for contract closeout must execute the quick-closeout agreement document with the contractor and distribute copies to other impacted ACOs, PCOs, and DCAA/A. The quick-closeout agreement document must identify all affected contract(s). See DCMA-MAN 2501-07 for more information.

**c. When a CACO/DACO/ACO Network Exists.** In the first quarter of a GFY, ACOs with a CACO/DACO/ACO network must identify a list of contracts for potential quick-closeout needing QCR. ACOs must provide the list of potential QCCs to the contractor and to the cognizant DACO(s).

(1) In the first quarter of a GFY, DACOs must attempt to develop, negotiate (where applicable) or recommend (as needed), and document indirect cost rates to use as QCR for all

unsettled CFYs. At a minimum, these QCR should cover all unsettled years older than 36 months from the month the DACO receives the contractor's most current final indirect cost rate proposal.

(2) In response to all QCC lists provided by ACOs, DACOs must provide recommended or negotiated QCR; or provide a documented objection as to why certain contracts on any provided QCC list are high-risk so that quick-closeout procedures should not be used.

(a) The DACO must provide each ACO a prompt response regarding the low-risk contracts that can be settled without any impact to unsettled final indirect cost rates (for any CFY falling within the period of performance for each contract on an ACO provided QCC list). This response must be provided prior to providing a written objection to high-risk contracts.

(b) After a DACO has provided all the required responses regarding low-risk contracts, a DACO must provide any written objections regarding high-risk contracts not suitable for quick-closeout procedures to each applicable ACO. A written objection must provide rationale (i.e., risk assessment type comment) as to why a given contract is too risky for using quick-closeout procedures. The DACO should assess the quick-closeout risk in accordance with the guidance found at FAR 42.708(a)(3). Where possible, the objection should include input provided by DCAA/A.

(3) If an ACO receives an objection notice from the DACO, and the ACO disagrees, the ACO must document the objection in the PNOM and seek a resolution with the DACO.

(a) The ACO must document a risk assessment in the PNOM explaining why they do not accept the rationale of the DACO's objections. The PNOM must include an explanation of the resolution efforts described in the next paragraph.

(b) A resolution meeting must be arranged between the ACO and the DACO. If no agreement can be reached, the disagreement must be elevated up each appropriate level of management review.

(4) Prior to negotiating QCR, the responsible DACO and DCAA/A auditors must discuss possible reasons for not using the quick-closeout procedure.

(5) A DACO must coordinate with the CACO and/or other affected DACOs to determine if negotiating QCR could restrict the CACO's or other DACOs' ability to negotiate corporate or division cost flow-downs (especially those negotiated under the "DCMA Quick-Closeout Procedure Class Deviation").

(6) In cases where a DACO negotiates QCR, the DACO must develop the QCR and prepare a PNOM. See guidance on PNOM development in paragraph 3.7. The PNOM may be tailored to address the specific requirements of quick-closeout procedures. DACOs must obtain management review/concurrence with the PNOM from the appropriate CMO Contracts Director or CACO/DACO Group Director or their designee before entering into negotiations.

CACO/DACO supervisors are designated (by their Director) to review PNOMs prepared by CACOs/DACOs.

(a) A risk assessment addressing the criteria found in FAR 42.708(a)(3) must be covered in the PNOM. If the “QCO Risk Assessment” spreadsheet is used, the PNOM must summarize the risk assessment conclusion and cross reference to the analysis performed within the "QCO Risk Assessment" spreadsheet job aid.

(b) DACOs are encouraged to use the “QCO Risk Assessment” spreadsheet provided on the DCMA-MAN 2201-03 resource page. This spreadsheet can be used as a supplement to the risk assessment narrative provided in a PNOM. DACOs must provide necessary data to the ACO to allow completion of his/her risk assessment required by FAR 42.708.

(7) The DACO must document the quick-closeout rate negotiation using a written rate agreement and PNM. See guidance on PNM development in paragraph 3.9.

(a) The PNM may be tailored according to guidance found in the DCMA “Quick-Closeout Desktop Procedure” found on the DCMA-MAN 2501-07 resource page.

(b) DACOs must obtain CACO/DACO supervisory review/concurrence of the written rate agreement and PNM as directed in paragraph 3.9.c. of this Manual.

(c) The DACO must provide the PNM to applicable ACOs and DCAA/A auditors for further distribution as needed.

### **3.5. NEGOTIATIONS POST CONTRACTING OFFICER’S FINAL DECISION.**

As explained in FAR 33.204, it is the Government's policy to first try and resolve contractual issues at the contracting officer’s level prior to issuing a COFD. In some circumstances, an ACO issues a COFD making a claim against a contractor. The most common cases will be when an ACO issues a COFD on a disallowance of costs or on a penalty assessment. See FAR 33.211. ACOs are reminded that post-COFD negotiations are the exception and not the rule and any such potential discussions should not be held until after first consulting with assigned local counsel to ensure that rights of both the contractor and the Government are protected. If later however, the ACO is able to engage in a post-COFD negotiated settlement, the COFD will serve as a PNOM when the negotiated settlement remains the same as the ACO’s position previously stated in the COFD. Otherwise, the ACO must still prepare a PNOM and obtain appropriate legal and management review (see paragraph 3.7.e. of this Manual) before finalizing the post-COFD negotiated settlement. Following a negotiated settlement, the ACO must also prepare a PNM following the guidance found at paragraph 3.9. of this Manual. An ACO should be aware of past legal decisions where, in some instances, negotiations that occurred after issuance of a COFD and prior to contractor appeal were found to constitute a rescission of the COFD. An ACO must consult with assigned legal counsel before engaging in negotiations or settlement discussions with the contractor during the post-COFD time period and prior to contractor appeal.

**3.6. PROCEDURAL TOLLING AGREEMENTS.** A procedural tolling agreement is a potential tool for protecting both the Government and a contractor from exceeding the 6-year

Contract Disputes Act (CDA) statute of limitations time window. The tolling agreement is entered into by both parties prior to the expiration of the 6-year CDA statute of limitations in order to suspend the imposition of the statutory time bar for a specified time period. This agreement means the specified period of time in the tolling agreement will be excluded when determining whether the Government's claim is time-barred under the CDA statute of limitations. In appropriate cases, an ACO's use of a procedural tolling agreement will be in the Government's best interests. Before considering the potential use of a tolling agreement, the ACO must consult with local legal counsel.

### **3.7. DEVELOP AND COORDINATE PRENEGOTIATION OBJECTIVES**

**MEMORANDUM.** Except when using a DCAA low-risk memorandum, the ACO must establish the Government's initial prenegotiation objectives in a PNOM in accordance with FAR 15.406-1. The scope and depth of the analysis supporting the PNOM must be directly related to the dollar value, importance, and complexity of the contractor's overall rates and individual elements of costs. ACOs may also use an MFR to document what action or non-action (i.e., waive a penalty assessment) the ACO takes relative to penalty assessments recommended in a DCAA incurred cost audit report where a signed rate agreement is attached. The MFR must include the ACO's decision and action taken concerning a penalty waiver under FAR 42.709-5. ACOs should look at the DCMA-MAN 2201-03 resource page for a PNOM and PNM template(s).

**a. Consideration of Audit and Functional Recommendations.** The ACO must fully consider all DCAA/A questioned, unsupported, and unresolved costs as well as obtain any clarifications from DCAA/A needed to understand the recommendations and findings in the DCAA/A audit report. (Costs questioned by DCAA may also be reported through DCAA Form 1.) Similarly, the ACO must document consideration of all recommendations provided by functional specialists. The ACO must not make a final decision on any questioned costs until obtaining adequate documentation from the contractor. Pursuant to FAR 42.705-1(b)(4), the ACO must obtain DCAA/A's follow-up opinion on the allowability of the costs after their review of the additional documentation provided by the contractor. The auditor's opinion may be provided in writing or orally. If provided orally, the ACO must document the opinion in writing.

**b. Qualified Audit Report or Disclaimer of Opinions.** When an ACO receives an audit report that is qualified (e.g., when the results of an assist audit are still pending), the ACO must consider the nature and impact of the costs that are affected by the qualified opinion. In some instances, an audit report may report a "disclaimer of opinion." The DCAA Contract Audit Manual (DCAM) explains when DCAA auditors should disclaim an audit opinion. The DCAM instructs how an "audit team should disclaim an opinion when they are unable to obtain sufficient appropriate audit evidence (i.e., not all planned audit procedures could be completed) and its potential effects are material and pervasive." The DCAM further elaborates on the term "pervasive" in the context of audit "engagement" (i.e., total audit effort). The DCAM explains, "In this context, pervasive means that the possible impact of the audit procedures not performed can affect a substantial portion of the subject matter under audit and is generally not confined to specific cost elements."

(1) In some instances, the qualified audit opinion (due to another pending assist audit report) may relate to subcontract costs that are a type of direct cost. Subcontract costs typically have no impact relative to settling a prime contractor's final indirect rates. However, the assist audit (covering subcontract costs) will likely be needed to settle specific contract costs with the prime contractor.

(2) Some qualified audit opinions may relate to pending audits associated with intracompany cost allocations: from a home office; from an intermediate home office; or from a shared services group. The ACO may need to settle or establish final indirect rates without waiting for the results of pending audits of intracompany cost allocations. Such cases are described below.

(a) An ACO may decide not to wait for audit results when the ACO determines the applicable intracompany cost allocations will have no material impact on the rates to be negotiated or established by the ACO.

(b) An ACO may decide not to wait for audit results when the ACO determines the regulatory time limits (such as covered by FAR 4.804-1(a)(3) and/or FAR 33.206) will not allow for additional time to wait for the results of a pending audit.

(3) When an ACO receives an audit report that includes a disclaimed audit opinion, the contacting officer must address the non-compliant issues that are included in the "Other Matters to be Reported" section of the audit report. When the auditor disclaims an opinion, the auditor is prohibited from including a "Results of Audit" section or using the term "questioned cost." Although, the audit report may not include any penalty assessments; the contracting officer must determine if the non-compliant issues are related to expressly unallowable cost. If the contracting officer determines that the issues require penalty assessments; refer to paragraph 3.12. of this Manual for additional guidance.

(4) If an audit report contains qualifications or a disclaimer of opinion, see subparagraph 3.7.c.(3) in this Manual for additional guidance. Within the PNOM/PNM, the ACO must also address each finding or issue disclosed in the "other matters to be reported" section of the audit report.

**c. The ACO must document in the PNOM:**

(1) An affirmative statement that the ACO agreed or disagreed with each finding and recommendation made by DCAA/A or DCMA functional specialists (e.g., price/cost analyst, engineer, counsel) and whether or not the assessment of any recommended penalties and interest is appropriate.

(2) Sound rationale for resolving each finding and recommendation made by DCAA/A or DCMA functional specialists, and explain if any recommended penalties and interest should be assessed. The rationale must demonstrate that the ACO has considered all appropriate FAR, DFARS, DoD policy, and DCMA Issuances related to the issue raised or questioned by DCAA/A (e.g., cost principles or cost accounting standards).

(3) After an ACO identifies all qualifications contained in the audit report, the ACO must document (i.e., in the applicable PNOM, PNM, and/or MFR) all steps taken to mitigate the auditors' scope limitation. The auditors' qualifications may be found in a "Scope Limitation" section of a DCAA/A audit report. The ACO's mitigation efforts must explain how the ACO plans to negotiate the costs impacted by the audit report's scope limitation (e.g., when an auditor did not perform certain auditing procedures). The ACO must contact the auditor(s) to learn if the auditor(s) performed any new audit efforts or other analysis since the incurred cost audit report was issued. The ACO must document whether the additional efforts of the auditors help to mitigate against the qualifications found in the prior qualified audit report. All additional information obtained from the contractor, auditors, functional specialists, and/or PCOs must be documented by the ACO.

**d. Coordination.** The ACO must invite contracting offices having significant dollar interest to participate in the preliminary discussions of critical issues and in the negotiations as described in FAR 42.705-1(b)(3). Also, individuals or offices that have provided a significant input to the Government position should be invited to attend. If a DCAA auditor has a disagreement with the ACO and seeks an elevation, the ACO must properly seek resolution of the disagreement with DCAA auditors as governed by the DCMA "BoR General Practice" guide found on the main resource page of DCMA-INST 2201. However, no BoR is required regarding the adequacy of host nation standard audit practices.

**e. Legal Review.** When an ACO interprets and/or applies law, regulation, or the authority of officials in a way different from how explained in an audit report, the ACO must consult with legal counsel. The ACO must seek recommendations from legal counsel on suitable wording if the ACO's rationale for disagreeing with an audit finding is to be based on some type of legal interpretation. After consulting with legal counsel, the ACO must document (in the both PNOM and subsequent PNM) the ACO's rationale for disagreeing with the reported audit findings or recommendations. In both the PNOM and PNM, the ACO must document how he/she consulted with legal counsel and management relative to these types of unsustained audit findings.

**f. Concurrence.** The ACO must sign the PNOM and obtain management review/concurrence with the PNOM from the appropriate CMO Contracts Director or CACO/DACO Group Director and any required BoR, before entering into negotiations. However, a BoR is not necessary for a post-COFD negotiated settlement reached while the matter is in active litigation. Either of the noted Directors may delegate management-level review of the PNOM to a level at least one level above the ACO.

**g. Contract Audit Follow Up.** The ACO will follow procedures for resolving and dispositioning reportable audits as prescribed in DCMA-MAN 2201-04. The appropriate CMO Contracts Director or Director of the DACO/CACO Group must verify the ACO is following procedures contained in DCMA-MAN 2201-04 when reviewing the PNOM to give management concurrence.

### **3.8. NEGOTIATE RATES.**



**a. Settlement Timelines.** The ACO must make every effort to negotiate final overhead rates within a 27- or 36-month cycle as described below for major and non-major contractors, respectively. However, the ACO must negotiate all questioned costs in a timely manner and, if appropriate, assert a Government claim pursuant to FAR 33.206. Timely final indirect rate settlements are also needed within 36 months of the month in which the contracting officer receives evidence of physical completion of a contract pursuant to FAR 4.804-1(a)(3). These final indirect cost rate settlement timelines should not be confused with separate CAFU timelines covered in DCMA-MAN 2201-04.

(1) DCAA's definition of a major contractor (over \$100 million of auditable dollar volume) must be used in determining whether a contractor is classified as major or non-major.

(2) For a non-major contractor, the 36-month cycle is computed from the contractor's fiscal year end (FYE) date to the date the ACO obtains a signed rate agreement settlement.

(3) For a major contractor, the 27-month cycle is computed from the contractor's FYE date to the date the ACO obtains a signed rate agreement settlement.

(4) One type of hindrance to timely rate settlement can occur when a contractor disputes an ACO's position on whether certain costs are unallowable. This will typically result in the ACO issuing a COFD and the contractor pursuing a judicial reversal through litigation. Similarly, if a contractor is under investigation by a Government agency, this can prevent timely rate settlement. In such cases, the ACO must make proper notations in the applicable eTool/database explaining why rate settlement is being hindered. For more guidance regarding legal disputes, see DCMA-MAN 2501-09.

**b. Settlement Activities.** If final indirect rates are determined by the ACO, then the ACO must negotiate final indirect rates or unilaterally establish final rates.

(1) The ACO must invite contracting offices having significant dollar interest to participate in the negotiation per the requirements of FAR 42.705-1(b)(3). The ACO must invite the auditor to serve as an advisor at negotiations pursuant to FAR 42.705-1(b)(4). One of the goals of these negotiations should include seeking collective agreement (from all affected contracting officers) towards the settlement of all auditor questioned costs. Prior to negotiations, CACOs and DACOs are encouraged to invite other affected ACOs to post-audit exit conferences held by DCAA.

(2) The ACO must negotiate and finalize all local issues under his/her cognizance while waiting for applicable corporate or other flow-down costs.

(a) When settling local cost matters, the ACO must follow the guidance on PNOM and PNM documentation. Likewise, the ACO must obtain a written agreement with the contractor that documents settlement of specific local cost items. The ACO should look at the DCMA-MAN 2201-03 resource page for a PNOM and PNM template(s).

(b) Upon receipt of applicable corporate or other flow-down costs, the ACO must finalize the rate agreement settlement.

(3) ACOs must execute final rate agreements for a segment/division when unsettled flow-down costs (e.g., corporate, other segments, or service centers) do not apply to that segment/division.

(4) As provided by FAR 52.216-7(d)(4) and FAR 52.233-1, if the ACO and contractor are unable to reach agreement on the final annual indirect costs rates, such will be a dispute within the meaning of the “Disputes” clause (i.e., contract clause FAR 52.233-1). When a bilateral settlement is not reached, the ACO must unilaterally establish the rates and issue a unilateral rate determination letter to the contractor. For more guidance regarding legal disputes, see DCMA-MAN 2501-09.

**3.9. EXECUTE WRITTEN FINAL INDIRECT COST RATE AGREEMENT AND PRICE NEGOTIATION MEMORANDUM.** The ACO must properly document the final written indirect rate agreement and PNM. The ACO should look at the DCMA-MAN 2201-03 resource page for a PNM template. The requirement to document the final indirect rate agreement includes those negotiated post-COFD.

**a. Rate Agreement.** After a bilateral rate settlement is reached, the ACO must obtain a signed rate agreement as required by FAR 52.216-7(d)(3). Additionally, the contractor is required to update the billings on all contracts to reflect the final settled rates and update the schedule of cumulative direct and indirect costs claimed and billed within 60 days after settlement of final indirect cost rates as directed by FAR 52.216-7(d)(2)(v). However, this expanded requirement of FAR 52.216-7(d)(2)(v) only applies when contained in contracts awarded on or after May 31, 2011. The ACO should look at the DCMA-MAN 2201-03 resource page for a final indirect cost rate agreement template(s).

**b. PNM Requirements.** Except when using a DCAA low-risk memorandum, the ACO must prepare a PNM containing:

(1) An affirmative statement that the ACO agrees or disagrees with each finding and recommendation made by DCAA/A or DCMA functional specialists and whether or not the assessment of any penalties and interest is appropriate.

(2) Sound rationale for resolving each finding and recommendation made by DCAA/A or DCMA functional specialists, and whether or not the assessment of any penalties and interest is appropriate. The rationale must demonstrate that the ACO has considered all appropriate FAR, DFARS, and DCMA Issuances related to the issue raised or questioned by DCAA/A (e.g., cost principles or cost accounting standards). Additionally, the ACO must separately identify all intracompany flow-down costs used to reach a local final indirect rate settlement. This will document that the ACO properly identified and considered the impact of other negotiated intracompany flow-down costs by comparing what was proposed versus what was settled by the CACO or cognizant DACOs. Further, the ACO must document his/her rationale for not using, or waiting for, final settled intracompany flow-down costs.

(3) A reconciliation of all costs questioned with identification of items and amounts allowed or disallowed in the final settlements.

(4) A disposition of period costs or allocability issues.

(5) An assessment of any penalties and interest.

(6) An explanation of any deviations taken from a prior position contained in the PNOM relative to reaching the final settlement.

(7) An identification of cost or pricing data submitted during the negotiations and relied upon in reaching settlement including the assessment of any penalties and interest.

**c. PNM Review.** Before signing the rate agreement, the ACO must submit a signed PNM and obtain management signature concurrence on the PNM or on a PNM routing document. This same type management review is required when an ACO issues a unilateral rate determination letter. This management review must include the appropriate CMO Contracts Director or CACO/DACO Group Director as well as any required follow-up BoR evaluation when the ACO deviates from a prior BoR recommendation on the PNOM. The ACO must follow guidance on the DCMA-INST 2201 main resource page for the “BoR General Practice” guide regarding deviations. However, a BoR is not necessary for a post-COFD negotiation settlement. Before concluding management review of the rate agreement and PNM, the appropriate CMO Contracts Director or Director of the DACO/CACO Group must verify that the ACO followed procedures contained in the BoR found on the main resource page. A Director may delegate management-level review of the action to a level no lower than the contract team supervisor/leader or Pricing/Center team supervisor (for the CACO/DACO group).

**d. Distribution.** After obtaining the review/concurrence, the ACO must sign and distribute the rate agreement or rate determination letter and PNM pursuant to FAR 42.706 as well as distribute these documents to DCAA/A as highlighted below.

(1) The ACO must promptly distribute an executed copy of the rate agreement or rate determination letter to the contractor.

(2) The ACO must promptly distribute executed copies of the rate agreement or rate determination letter and PNM to each affected contracting office and DCAA/A. In some cases, the audit report(s) may need to be distributed as noted in FAR 42.706(b).

(3) Although implied by FAR 42.706, ACOs within a CACO/DACO/ACO network must mutually distribute rate determination letters and PNMs to each other as applicable. When an ACO settles questioned direct costs, the ACO must provide a copy of the finalized PNM to the DACO. The PNM will be used to disposition the findings as required by DCMA-MAN 2201-04 on CAFU.

(4) As a courtesy, the ACO should provide a copy of the PNM to any organization that provides written recommendations from a functional specialist(s).

**e. Contract File Documentation.** The PNM and signed rate agreement must be documented in the contract files. Additionally, the ACO must document the date and method of transmittal of these 2 documents to DCAA. ACOs must also document completion of the rate settlement in the appropriate databases.

**f. Untimely Final Vouchers.** If the contractor does not submit timely contract completion invoices or vouchers, the ACO must follow the guidance found in FAR 42.705(c).

### **3.10. SETTLE DCAA FORM 1 ISSUES AND DISALLOWANCE OF COST ISSUES - BEFORE A COST IS INCURRED.**

**a. Notification of Disallowed Costs.** As noted in FAR 42.801(a), discovery of potentially unallowable costs can occur before the costs are incurred or after they are incurred. The ACO may learn of costs subject to potential disallowance from several sources such as:

(1) Cost monitoring activities may disclose potential cost allowability problems. For more information on cost monitoring activities see DCMA-MAN 2201-01, "Forward Pricing Rates."

(2) DCMA Cost and Pricing Analysts might identify unallowable costs during proposal evaluations or other ACO support.

(3) DCAA audit of a price proposal or forward pricing rate proposal may disclose a cost allowability issue before a cost is incurred. In such cases, DCAA may also issue a DCAA Form 1. See paragraph 3.11.a. for more details about terms or types of DCAA Form 1.

(4) In some circumstances an ACO may deal with host nation auditors rather than DCAA auditors. If host nation auditors identify a potential cost allowability problem to the ACO, the ACO will follow the same steps covered in this policy.

**b. Delegated Responsibilities.** After learning of potential instances of unallowable costs, the ACO must identify the contracting officer responsible to settle the matter of controversy. If delegated the authority, an ACO has the responsibility to resolve issues of controversy (see FAR 42.302 (a)(10)), and to determine the allowability of costs suspended or disapproved pursuant to FAR 42.302 (a)(7). Otherwise, the ACO will defer the issue to a PCO where the ACO has not been delegated to perform the function as part of contract administration.

(1) The ACO must consider the type of costs under dispute in order to identify any other ACO who is responsible for determining the allowability of the questioned costs.

(a) If the disputed costs are direct costs, the ACO must identify the cognizant PCO or delegated ACO if applicable. The ACO who has been delegated authority to administer a

contract is the ACO responsible to determine the allowability of questioned direct costs associated with that contract.

(b) If the questionable costs involve elements of indirect cost, the ACO must identify the appropriate ACO responsible for settling final indirect rates impacted by the questioned indirect costs. The ACO responsible for settling final indirect rates must issue the notice to disallow indirect costs. Similarly, the ACO who issues the notice of disallowance must respond to any contractor disagreement with the notice as covered in FAR 42.801(f).

(c) If the questionable costs involve elements of indirect cost allocated to other business segments, the ACO must coordinate with other impacted contracting officers and/or auditors. These impacted contracting officers, auditors, and contractor representatives may need to be engaged in discussions to reach a satisfactory settlement.

(2) When evaluating costs that might be disallowed, the ACO must first review the affected contracts to determine if the contracts contain FAR clause 52.242-1. If a contract does not contain, or is not required to contain FAR clause 52.242-1, then the ACO must consult legal counsel as to whether the cost issue can be addressed on this contract or other contracts.

(3) In determining if a cost is allowable or unallowable, the cognizant ACO must use the basic criteria of “allowability” found in FAR 31.201-2, “reasonableness” found in FAR 31.201-3, and “allocability” found in FAR 31.201-4.

(4) The ACO must consider whether potential unallowable costs have any directly associated costs (see FAR 31.201-6) that must also be covered by the ACO’s determination. The cognizant auditors should be able to advise the ACO on the adequacy of the contractor's accounting system to identify unallowable costs and their directly associated costs. Such costs must be excluded from any billing, claim, or proposal applicable to a Government contract containing FAR contract clause 52.216-7. FAR 31.201-6 provides guidelines on what is expected when a contractor is properly accounting for unallowable costs.

(5) If the ACO determines a cost to be allowable, no additional action is needed unless an ACO disagreement with DCAA audit findings requires a BoR (see the “BoR General Practice” guide) found on the main resource page of DCMA-INST 2201.

**c. Attempt Settlement Via Discussion.** As required in FAR 42.801(a), the ACO responsible for administering a contract must make every reasonable effort to reach a satisfactory settlement of the unallowable cost finding through discussions with the contractor. The goal of the discussions is to avoid the need to issue a notice of intent to disallow costs.

**d. Notice of Intent To Disallow - Decision.** If the ACO and the contractor do not agree on the allowability of the costs, the ACO must consider issuance of a notice of intent to disallow the costs pursuant to FAR 42.801. The ACO has authority to issue a written notice of intent to disallow costs under cost-reimbursable contracts, fixed-price incentive contracts, and contracts allowing for price redetermination if the contract contains FAR clause 52.242-1.

(1) Before issuing a notice that involves elements of indirect costs, the ACO must first seek advice from the cognizant DCAA office that provides audit support for settlement of final indirect cost rates. Consultation with the appropriate auditors is required pursuant to FAR 42.801(e). After obtaining input from DCAA, the ACO responsible for settling final indirect rates must issue the notice to disallow indirect costs (as well as dealing with any contractor disagreement with a notice as covered in FAR 42.801(f)).

(2) Before issuing the notice of intent to disallow costs, the ACO must obtain management review of the notice from the CMO Contracts Director and any required BoR (see “BoR General Practice” guide on the DCMA-INST 2201 main resource page). Before issuing the notice of intent to disallow costs, CACOs and DACOs must obtain management review of the notice from the Director of the DACO/CACO Group. If this action is delegated, the appropriate Director must delegate to a level no lower than the contract team supervisor/leader or Pricing/Center team supervisor (for the CACO/DACO group).

**e. Notice of Intent to Disallow – Written Notice Minimum Requirements.** If the ACO decides to issue a notice of intent to disallow costs, follow procedures as set forth in FAR 42.801(c) pertaining to a list of minimum elements needed in the written notice.

**f. Notice of Intent to Disallow - Contractor Response.** If the contractor submits a timely written response disagreeing with the notice, the ACO must withdraw the notice or issue a final decision as required by FAR 42.801(f). For the contractor's written response to be timely, it must be submitted within the timelines identified in the notice of intent to disallow costs as explained in FAR 42.801(c)(5).

**g. Notice of Intent to Disallow - Withdrawal or Final Decision.** If the ACO withdraws the notice or issues a final decision to the contractor, the ACO must take the following steps:

(1) If a DCAA audit report was relied upon, the ACO must document in a MFR for the contract file an affirmative statement that the ACO agreed or disagreed with each audit finding and recommendation and sound rationale for resolving each audit finding and recommendation. The rationale must demonstrate that the ACO has considered all appropriate FAR, DFARS, and official DCMA issuances related to the issues raised or questioned by DCAA. Additionally, the ACO must document, in the MFR, the date of the auditor’s discovery of the unallowable cost. The purpose of documenting this date of auditor discovery is to identify when the auditors first discovered the unallowable cost as a potential accrual of claim date. See FAR 33.206 and see DCMA-MAN 2501-09. However, legal advice is required to identify the most appropriate accrual of claim date if such a determination is needed later.

(2) For both a withdrawal notice and a final decision, the ACO must obtain review of all documentation by the CMO Contracts Director. CACOs and DACOs must obtain review from the Director of the DACO/CACO Group. (If this action is delegated, the Directors must delegate to a level no lower than the contract team supervisor/leader or Pricing/Center team supervisor (for the CACO/DACO group)). For a final decision, an additional review is required by legal counsel, the CDRC and other advisors. Finally, documentation must be reviewed by any required BoR (see “BoR General Practice” guide on the main resource page.)

(3) The ACO must issue the withdrawal notice or final decision within 60 days of receipt of the contractor's written response as required by FAR 42.801(b).

**h. Distribution.** After issuing a written notice or decision to the contractor, the ACO must furnish copies of any notice of intent to disallow costs, withdrawal notice, or final decision to all contracting officers cognizant of any segment of the contractor's organization, even if a segment is not impacted by indirect cost allocations per the requirements of FAR 42.801(d).

**i. Records Retention.** The ACO must maintain copies of all final versions of audit reports, MFRs, written communications, legal advice, management review documents, written notices, and final decision documents as stated or implied elsewhere in this Manual. Additionally, the ACO must make sure all these records are maintained as required by DCMA-MAN 4501-06 and any other Agency records retention guidance.

### **3.11. SETTLE DCAA FORM 1 ISSUES AND DISALLOWANCE OF COST ISSUES - AFTER A COST IS INCURRED.**

#### **a. DCAA Terms and Definitions Related to a DCAA Form 1.**

(1) The DCAM (December 2017, section 6-902) describes "suspended" costs as, "an item of cost, either direct or indirect, which lacks adequate explanation or documentary support for definitive audit approval or disapproval." Such costs "should be suspended until the required data are received and a determination can be made as to the allowability of the item." The ACO need not take any action relative to a DCAA Form 1 that "suspends" costs unless the contractor submits a request for reconsideration.

(2) DCAA describes "disapproved" costs as, "Costs claimed by the contractor for which audit action has been completed, and which are not considered allowable." "Disapproved costs" can come from different circumstances described below:

(a) Cost restrictions identified in FAR Part 31 or identified in the terms of a contract.

(b) Costs that are not explicitly unallowable under FAR Part 31 but are considered by the auditor "to be unreasonable in amount, contrary to generally accepted accounting principles, or not properly allocable to the contract in accordance with the relative benefit received or other equitable relationship."

(c) Costs previously disapproved by the ACO.

**b. Notification and Response to Disallowed Costs.** During the course of monitoring performance on contracts the ACO may become aware of incurred costs that have been disallowed or should be disallowed.

(1) The ACO may be notified of these disallowed costs by an auditor via a DCAA Form 1 or a memorandum that is separate from an audit report or it may be attached to an audit report.

(2) DCAA may issue these DCAA Form 1s when they are unable to reach agreement with the contractor on audit determined rates.

(3) The ACO may also be notified of disallowed costs from other ACOs, Cost Monitors, or other functional specialists.

(4) The ACO with appropriate delegated authority is responsible to make the determination on cost allowability.

(5) When the ACO is notified of disallowed costs, the ACO must follow all applicable procedures found within this Manual to resolve the issue and settle the final rates. The ACO must consider the disallowed costs when developing a PNOM to settle final rates. The ACO must consider whether the identified unallowable costs have directly associated costs, as covered in FAR 31.201-6, even if such costs are not identified by DCAA. If DCAA does not identify such costs in a DCAA Form 1, the ACO must make inquiry about directly associated costs that may need to be further identified by DCAA.

(6) An ACO may need to issue a COFD when a contractor files a claim or dispute in response to disallowed costs.

(7) In circumstances where an ACO is dealing with host nation auditors rather than DCAA auditors, the host nation auditors may identify cost allowability issues to an ACO. In such cases, the ACO will generally follow the same procedures below. However, since host nation auditors do not use the DCAA Form 1, the ACO must create a DCAA Form 1. The ACO should also use the DCAA Form 1 as a ready means to notify the contractor of disallowed costs. ACO use of a DCAA Form 1 is covered in DFARS 242.803(b)(ii)(B).

**c. Request for ACO Decision.** A DCAA Form 1, will typically contain language requesting the ACO to issue a final decision. However, the contractor may contact the ACO as well. The contractor may submit a written request to the ACO to consider whether the unreimbursed costs (disallowed by a DCAA Form 1) should be paid. In addition to the written request, the contractor may file a claim or dispute. See DCMA-MAN 2501-09.

**d. Contractor Requests ACO Decision.** If the contractor submits a written request asking the ACO to determine whether the unreimbursed costs (disallowed by a DCAA Form 1) should be paid, or files a claim under the Disputes clause, the ACO must take one or more of these actions:

(1) The ACO must follow the steps described in paragraphs 3.10.b. and 3.11.h. of this Manual to identify all appropriate contracting officers responsible to settle the matters of controversy identified in the DCAA Form 1 or other form of notification.

(2) The ACO must fully consider all DCAA findings and recommendations.



(3) The ACO must prepare a written determination and withdraw the notice within 60 days if the ACO finds that the costs should be paid. See FAR 33.211(c).

(4) If negotiation can be accomplished, the ACO must negotiate a settlement within 60 days and prepare an applicable PNOM, PNM and/or MFR.

(5) The ACO must issue a final decision within the statutory time limitations found at FAR 33.211(c).

(6) If the ACO will not be able to render a decision within 60 days, then the ACO must:

(a) Immediately establish target dates for required actions to support the final decision (e.g., additional inputs from DCAA, required legal counsel reviews), and the target date for making the decision and provide the schedule to the CMO Contracts Director or Director of the DACO/CACO Group, as applicable.

(b) Obtain management review of the target schedule (to ensure the schedule meets the statutory timelines) from the applicable CMO Contracts Director or Director of the DACO/CACO Group.

(c) As required by FAR 33.211(c)(2), provide the contractor a written notification (within the 60-day time period) of the time within which a decision will be issued.

(7) Prior to reaching a settlement with the contractor, or releasing a withdrawal notice or issuing a final decision to the contractor, the ACO must:

(a) Document, in a MFR or PNOM for the contract file, an affirmative statement on whether the ACO agreed or disagreed with each audit finding and recommendation. The affirmative statements must provide sound rationale for resolving each audit finding and recommendation. The rationale must demonstrate how the ACO has considered all appropriate FAR, DFARS, and official DCMA issuances related to the issues raised or questioned by DCAA. Additionally, the ACO must document, in the MFR, the date of discovery of the unallowable cost.

(b) Obtain management review from the CMO Contracts Director, and any required BoR, before issuing a withdrawal notice, negotiating a settlement, or making a final decision. CACOs and DACOs must obtain management review by the Director of the DACO/CACO Group, and any required BoR before issuing a withdrawal notice, negotiating a settlement, or making a final decision. If this action is delegated, the CMO Contracts Director must delegate to a level no lower than the contracts team supervisor/leader. See the “BoR General Practice” guide on the DCMA-INST 2201 main resource page.

(c) The ACO and the CMO Contracts Director or Director of the DACO/CACO Group must ensure all needed advice is obtained from assigned legal counsel, the CDRC, and other advisors when a COFD is prepared.

**e. Recovery of Costs.** When DCAA issues a DCAA Form 1, and the contractor does not object, the ACO need not take further action unless the contractor has overbilled on a contract with no future billings under the contract. In such instances, the ACO must take steps to recoup the disapproved costs (direct and associated indirect). For more information on the recovery of contract costs, see DCMA-MAN 2501-10, “Contract Debts.” The ACO must not take any action to allow the contractor to be paid for some or all costs suspended or disallowed by DCAA prior to withdrawing the notice, negotiating a settlement, or issuing the final decision.

**f. Determining Allowability, Reasonableness, and Allocability.** In determining if a cost is allowable or unallowable, the cognizant ACO must use the basic criteria of “allowability” in FAR 31.201-2, “reasonableness” 31.201-3 and “allocability” in FAR 31.201-4. Additionally, when an ACO considers if potential unallowable costs have any directly associated costs, they must consider the requirements of FAR 31.201-6.

**g. Allocations Associated with Unallowable Costs.** As a general rule, questioned direct costs will not impact final overhead rate calculations because the costs are usually part of an allocation base and not in an expense pool. Costs questioned that are part of the allocation base must remain part of the allocation base since they should receive their allocable share of indirect costs.

**h. Questioned Direct Cost Responsibilities.** If DCAA/A reports questioned direct costs incurred, regardless of whether a DCAA Form 1 is issued, the contract ACO is still responsible for resolving questioned costs relative to the impacted contract.

(1) As explained in FAR 42.201(a), “for each contract assigned for administration, the contract administrative office ... shall...” perform appropriate assigned functions covered in FAR 42.302. The point to be emphasized from this FAR 42.201 citation is the phrase “for each contract assigned.” If an ACO has been delegated responsibilities covered by FAR 42.302(a)(7), (a)(8), and (a)(10), the assigned duties are at the “each contract assigned” level. Thus, if a contract administration decision must be made (relative to the allowability of direct costs and resolving issues in controversy), then the ACO delegated these duties must do so relative to the affected contract. It does not matter if direct costs questioned by DCAA/A are also in an allocation base identified in a final indirect cost rate proposal to be settled by a DACO. The ACO with the delegated duties “for each contract assigned for administration” must settle the questioned direct costs associated with the affected contract.

(2) In instances where an ACO (including DACOs) receives a DCAA/A incurred cost audit report that identifies questioned direct costs, the ACO must immediately notify (to include providing a copy of the DCAA/A audit report) the contract ACO or PCO of the questioned direct costs and appropriate required actions.

(3) The receipt of a DCAA Form 1 is a separate contract action from the ACO settling final indirect rates. The receipt of a DCAA Form 1 should not preclude settlement of the final indirect rates or disposition of the audit in the CAFU system. For disposition requirements when penalties are assessed, see DCMA-MAN 2201-04.

(4) Where questioned direct costs are included in a DCAA/A incurred cost audit report addressed to an ACO (including DACOs), disposition of the appropriate database (i.e., CAFU system) record remains with the ACO. Settlement of the direct costs may or may not be accomplished before settlement of all final indirect rates. If all final indirect rates are settled first, and the questioned direct costs are still unsettled, then the ACO must hold the CAFU system record open until the questioned direct costs are settled. The ACO must add pertinent notes in the comments section of the open record in the CAFU system. Such comments should describe why the record is still open and the current status of the ACO relative to settling the questioned direct costs. When a contract ACO settles questioned direct costs, the ACO must provide a copy of the approved PNM to the DACO. After the questioned direct costs are settled by the contract ACO, the DACO can complete disposition of the audit in the appropriate database as described in DCMA-MAN 2201-04.

**i. Records Retention.** The ACO must maintain copies of all final versions of DCAA Form 1s, audit reports, MFRs, written communications, legal advice, management review documents, written notices, and final decision documents as stated or implied elsewhere in this Manual. Additionally, the ACO must make sure all these records are maintained as required by DCMA-MAN 4501-06 and any other Agency records retention guidance. DCAA Forms 1, must also be accounted for in the appropriate database.

### **3.12. EVALUATE PENALTIES RECOMMENDED BY DCAA/A.**

**a. Authority.** The cognizant contracting officer is responsible for determining whether the penalties in FAR 42.709 should be assessed or determine whether such penalties should be waived pursuant to FAR 42.709-5. In some cases, a penalty must be waived pursuant to FAR 42.709-5. The cognizant contracting officer is responsible for coordinating with the DCAA/A auditors and the applicable CACO/DACO/ACO network to ensure accuracy of penalty calculations applicable to final indirect cost proposals for contracts subject to penalty pursuant to FAR 42.709 – Penalties for Unallowable Costs, as well as assessment of the same. The cognizant contracting officer should reference the DCMA-MAN 2201-03 resource page to find a penalty assessment job aid.

**b. Penalty Evaluation.** If DCAA/A recommends penalties for unallowable costs, the ACO must follow guidance in FAR 42.709-2:

- (1) Determine whether penalties must be assessed against unallowable costs.
- (2) Determine whether such penalties must be waived pursuant to FAR 42.709-5.

(3) Refer to the appropriate Contract Integrity Center counsel if there is a suspicion the contractor may have knowingly submitted unallowable costs.

**3.13. DETERMINE TYPES OF PENALTIES.** The ACO must determine the types of penalties to be assessed for contracts pursuant to FAR 42.709-1. Contract clause FAR 52.242-3 identifies penalties that may be imposed upon a contractor for including unallowable costs in a final indirect cost rate proposal.

**a. First Time Expressly Unallowable Costs.** As directed by FAR 42.709-1(a)(1), if the indirect cost is expressly unallowable under a cost principle in the FAR or DFARS – that defines the allowability of specific selected costs – the ACO must assess a penalty equal to the sum of the following two components:

(1) The amount of the disallowed costs allocated to contracts that are subject to penalties for which an indirect costs proposal has been submitted.

(2) The amount of interest to be added onto the paid portion, if any, of the disallowed costs. Only simple interest, not compound interest, may be assessed. Follow the guidance in FAR 42.709-4.

**b. Second Time Expressly Unallowable Costs.** As provided for in FAR 42.709-1(a)(2), a second more severe type of penalty may sometimes apply. If the indirect cost was determined to be unallowable for that contractor before proposal submission (FAR 42.709-1(a)(2)), the penalty is two times disallowed costs. Interest on paid costs may need to be assessed. Thus, interest must be assessed “on any paid portion of the disallowed costs” as required by FAR 42.709-3 and FAR 42.709-4. As explained in FAR 42.709-3(b), prior determinations of unallowability may be evidenced by any of the following:

(1) A DCAA Form 1 or advisory memorandum, Notice of Contract Costs Suspended and/or Disapproved, or any similar notice which the contractor elected not to appeal and was not withdrawn by the cognizant Government agency.

(2) A prior COFD was not appealed.

(3) A prior executive agency Board of Contract Appeals or court decision involving the contractor, which upheld the cost disallowance.

(4) A determination or agreement of unallowability under FAR 31.201-6.

(5) Generally, costs directly associated with expressly unallowable costs are not to be included in the computation of any penalty assessment. However, there is an exception when the directly associated costs meet any of the criteria described above. When “directly associated costs” have previously been identified as unallowable to a contractor, they must be added to the penalty computation, per FAR 42.709-1(a)(2).

**3.14. ASSESS PENALTIES AND INTEREST.** The ACO must assess appropriate penalties and interest pursuant to FAR 42.709-3 and FAR 42.709-4, unless a waiver is required by FAR 42.709-5.

**a. Computing Interest.** If the unallowable indirect cost is subject to penalty, and the contractor has been paid for these expressly unallowable costs through the interim billing process, the ACO must compute the applicable interest portion of the penalty using the procedures at FAR 42.709-4.

**b. Assessing Penalties.** To assess the penalties, the ACO must issue a final decision pursuant to the requirements of FAR 33.211 and include a demand for payment of any assessed penalty. The letter must state that the determination is a final decision under contract clause FAR 52.233-1. Demanding payment of the penalty is separate from demanding repayment of any paid portion of the disallowed cost. An ACO's final decision may need to cover either matter or both matters (as appropriate under the circumstances). See DCMA-MAN 2501-09 for any applicable guidance related to an ACO issuing a final decision. See paragraph 3.11.d.(7) and the immediate subparagraphs for the requirements related to management and legal review.

(1) When a contractor has been paid for any unallowable costs billed to the Government, the ACO must issue a final decision demanding repayment for any paid portion of a disallowed cost unless the exception in FAR 32.604(c) is applicable.

(2) If a penalty is assessed on an unallowable cost claimed in a final indirect cost rate proposal, the ACO must issue a final decision demanding the payment of the assessed penalty and interest due as computed per the requirements of FAR 42.709-3 and FAR 42.709-4.

(3) In some instances a contractor may use decremented billing rates and then claim the Government was never billed for unallowable costs because the contractor intentionally decremented their billing rates to prevent the billing of unallowable costs. The decrement is used to cover for unallowable costs later accidentally not excluded (as required by FAR 31.201-6) by the contractor. However, the assessment of penalty may still be required because a penalty assessment is to be applied to unallowable costs presented in the final indirect cost rate proposal regardless of what was claimed in interim billings.

(4) The ACO must document in the contract file copies of the final decision letter and any other appropriate documents. After providing DCAA a copy of the final decision letter, the ACO must document the date and method of transmittal.

### **3.15. WAIVE PENALTIES.**

**a. Required Waiver Conditions.** The ACO must waive the penalties found at FAR 42.709-1(a) when any one of the three conditions identified in FAR 42.709-5 are met. The 3 possible conditions are:

(1) The contractor withdraws the proposal before the Government formally initiates an audit of the proposal and the contractor submits a revised proposal. An audit will be deemed formally initiated when the Government provides the contractor with written notice, or holds an entrance conference, indicating that audit work on a specific final indirect cost proposal has begun.

(2) The amount of the unallowable costs under the proposal which are subject to the penalty is \$10,000 or less (i.e., if the amount of expressly or previously determined unallowable costs which would be allocated to the contracts specified in FAR 42.709(b) is \$10,000 or less). The \$10,000 or less computation equals the aggregate amount of each type unallowable cost (i.e.,

costs submitted in the final indirect cost rate proposal) subject to penalty added together to arrive at a total of all such costs allocated to contracts covered by FAR 42.709(b). See “covered contracts” in the G.1. Definitions section of this Manual.

(3) The contractor demonstrates, to the cognizant contracting officer’s satisfaction, the following two conditions are met:

(a) The contractor has established policies, personnel training, and an internal control and review system that provide assurance that unallowable costs subject to penalties are precluded from being included in the contractor’s final indirect cost rate proposals. (Examples of these types of internal controls are controls required for satisfactory participation in the DoD-sponsored self-governance programs, specific accounting controls over indirect costs, compliance tests which demonstrate that the controls are effective, and Government audits which have not disclosed recurring instances of expressly unallowable costs.)

(b) Additionally, the unallowable costs subject to the penalty were inadvertently incorporated into the proposal; this is to say their inclusion resulted from an unintentional error, notwithstanding the exercise of due care.

**b. Legal Review.** Although not required, the ACO may deem it valuable to obtain legal review prior to granting a waiver pursuant to FAR 42.709-5(c).

**c. Document Disposition of Penalties:** ACOs may also use an MFR to document what action or non-action (i.e., waive a penalty assessment) the ACO takes relative to penalty assessments recommended in a DCAA incurred cost audit report where a signed rate agreement is attached. The MFR must include the ACO’s decision and action taken concerning a penalty waiver under FAR 42.709-5. ACOs should look at the DCMA-MAN 2201-03 resource page for a PNOM and PNM template(s).

### **3.16. DATABASE TRACKING.**

**a. Data Tracking.** ACOs must proactively input, update, and/or correct all applicable databases from the receipt of final indirect cost rate proposals, to eventual rate settlement, through any applicable penalty assessment/collection. The status of each step in the settlement process must be updated as needed to keep the information current. The use of the database is mandatory for both ACO negotiated and audit-determined final indirect rates.

**b. Data Integrity Monitoring.** The CMO Contracts Director or Director of the DACO/CACO Group must establish local internal controls to ensure data integrity for any database impacted by the process of establishing final indirect costs rates and settling final incurred costs whether direct or indirect. Typically, some type of database monitor will be used to aid the director as a major component of these internal controls.

## GLOSSARY

### G.1. DEFINITIONS.

**Appropriate or Applicable Database(s).** Since the types of “eTools” or database software used by DCMA are subject to periodic changes, in this Manual we used the generic descriptions of “appropriate databases” or “applicable databases.” Examples of these type databases could be: (1) the Overhead Negotiations eTool, (2) the Contract Audit Follow-Up eTool, (3) Form 1 Tracking eTool, and (4) Contract Business Analysis Repository (CBAR).

**CAFU System.** In accordance with DoDI 7640.02, “Policy for Follow-Up on Contract Audit Reports,” DCMA maintains a database system that records the actions taken to resolve and disposition reportable DCAA contract audit reports in a timely manner. The applicable database used for this purpose can be referred to as the CAFU system.

**Claim.** FAR 2.101 defines a claim as a “a written demand or written assertion by one of the contracting parties seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of contract terms, or other relief arising under or relating to the contract. However, a written demand or written assertion by the contractor seeking the payment of money exceeding \$100,000 is not a claim under the Contract Disputes Act of 1978 (see FAR 33.202) until certified as required by the Act. A voucher, invoice, or other routine request for payment that is not in dispute when submitted is not a claim. The submission may be converted to a claim, by written notice to the contracting officer as provided in FAR 33.206(a), if it is disputed either as to liability or amount or is not acted upon in a reasonable time.”

**Contracting Officer’s Final Decision.** FAR 33.211 describes a COFD as: “a written decision that shall include– (i) A description of the claim or dispute; (ii) A reference to the pertinent contract terms; (iii) A statement of the factual areas of agreement and disagreement; (iv) A statement of the contracting officer’s decision, with supporting rationale;” (v) Authorization for a contractor to appeal the decision; and “(vi) Demand for payment prepared in accordance with [FAR] 32.604 and [FAR] 32.605 in all cases where the decision results in a finding that the contractor is indebted to the Government.” FAR 52.233-1(c) covers “Disputes” and describes a “claim.”

**Covered Contracts.** Covered contracts, for the purpose of assessment of a penalty per FAR 42.709, are contracts in excess of \$750,000, and which contain one of the clauses at FAR 52.216-7, FAR 52.216-16, or FAR 52.216-17, or a similar clause from an executive agency’s supplement to the FAR, except fixed-price contracts without cost incentives or any firm-fixed price contracts for the purchase of commercial items. See FAR 42.709-6 regarding the related contract clause 52.242-3.

**Days.** In this Manual, and as defined in FAR 2.101, “day” or “days” mean a calendar day unless specified differently.

**Decrement Billing Rates.** To “decrement” and to “lower” are synonyms for this definition. In a discussion of billing rates as found in FAR 42.704, it uses the term “historical decrement” to

refer to how billing rates are revised, based on history, to lower than expected final indirect costs. The purpose of decrementing billing rates is to prevent overpayment to the contractor. As found in FAR 42.704, use of historical rate information involves adjusting billing rates lower “to reflect historically disallowed amounts from prior years’ audits, until the proposal has been audited and settled.”

**Direct Costs.** As defined in FAR 2.101, ‘Direct cost’ means any cost that is identified specifically with a particular final cost objective. Direct costs are not limited to items that are incorporated in the end product as material or labor. Costs identified specifically with a contract are direct costs of that contract. All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives.”

**Directly Associated Costs.** Per FAR 31.201-6, “A directly associated cost,” is described as, “any cost that is generated solely as a result of incurring another cost, and that would not have been incurred had the other cost not been incurred. When an unallowable cost is incurred, its directly associated costs are also unallowable.”

**Expressly Unallowable Costs.** FAR 31.001 provides that an “expressly unallowable cost” means a particular item or type of cost which, under the express provisions of an applicable law, regulation, or contract, is specifically named and stated to be unallowable.”

**Final Indirect Cost Rate Proposal.** Final indirect cost rate proposals are described in FAR 52.216-7(d)(2)(iii). A final indirect cost rate proposal consists of 15 required schedules or summaries and can include other supplemental information. The primary purpose of this type of proposal is to identify the actual final indirect cost rates claimed to be allowable and allocable to Government flexibly priced contracts in the covered CFY. The Government uses this proposal as the basis to negotiate the final billable indirect cost rates for the identified CFY.

**DCAA Form 1.** A DCAA Form 1 is a standardized form created by DCAA and used to notify contractors that certain types of costs are suspended or disapproved for payment when claimed on billing vouchers submitted under Government flexibly priced contracts. Per DFARS 242.803(b)(i)(D), a DCAA Form 1 is issued “to deduct costs where allowability is questionable.” Host nation auditors will not supply a DCAA Form 1 but may supply an advisory memorandum.

**Fiscal Year End.** A consecutive 12 month period selected by a business entity for financial reporting to interested parties such as stockholders, banking institutions, and/or governments. This 12 month period may or may not match the 12 calendar month period. The fiscal year ending date is the last day of the last month of the selected 12 month period.

**Host Nation.** The nation that performs the Government Quality Assurance (GQA) or financial audit services in their nation on behalf of another nation within the North Atlantic Treaty Organization. Typically, the financial audit services will be performed by a Host Contract Administration Services Audit Authority. When DCMA performs the GQA or financial audits in this capacity, the United States is the host nation.



**Indirect Costs.** As defined in FAR 2.101, “ ‘Indirect cost’ means any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.”

**Intracompany Transactions.** Intracompany flow-down costs or intracompany cost allocations are some types of intracompany transactions. The DCAM (December 2017, section 12-304.9) describes “intracompany transactions” as “charges for materials, services, and supplies sold or transferred between plants, divisions, or organizations under common control.” DCAA instructs their auditors to question “any excess charges resulting from the contractor pricing intracompany transactions inconsistently with the provisions of FAR 31.205-26(e).” “Intercompany” means between unrelated companies versus “intracompany” which means between related companies.

**Legal Review.** For purposes of this Manual, “legal review” or “legal advice” means obtaining advice from a legal counsel on whether a contracting officer’s planned course of action, or a document drafted by a contracting officer, is permitted/consistent with the laws of the United States, federal regulations, case law, terms of a signed Government contract, and/or other written agreements with a contractor.

**Major Contractor.** This is a contractor that has auditable cost reimbursable contracts that incur more than \$100 million in claimed costs in a fiscal year. The auditable dollar threshold distinction for “major” versus “non-major contractors” can vary as DCAA management may decide in a given fiscal year. A good source for identifying the current dollar threshold distinction is found in section 5-111.1, paragraph a., of the July 2016 DCAM. This DCAA sourced definition is useful for this Manual because of DCMA’s common practice to use data feeds from a DCAA database wherein they may categorize a contractor according to this classification.

**Non-major Contractor.** This is a contractor that has auditable cost reimbursable contracts that incur \$100 million or less in claimed costs in a fiscal year. This DCAA sourced definition is useful for this Manual because of DCMA’s common practice to use data feeds from a DCAA database wherein they may categorize a contractor according to this classification.

**Qualifications (related to qualified audit reports).** The DCAM (November 5, 2014, section 10-103.3) describes/defines “qualifications” impacting audit activity as, “When acceptable auditing procedures cannot be followed, or have been limited by unavailable or inadequate records, time, or other reasons, and the limitations have a significant effect on the conduct, scope, or results of audit, the auditor should provide comments in the scope of the audit and qualify the report. When a report is qualified, the Scope of Audit paragraph always starts with the following qualifier, ‘Except for the qualifications discussed ...’ The nature and impact of the qualification should be described briefly. A reference to the report section where details may be found should be provided.”

**Specialists (aka Functional or Technical Specialists).** FAR 1.602-2 (c) identifies some examples of “specialists” who can advise a contracting officer to “exercise business judgment.” Such “business judgment” can involve the need to “Request and consider the advice of specialists in audit, law, engineering, information security, transportation, and other fields, as appropriate;”.

**Subcontract.** The DCAM (December 2017, section 6-802-1) defines “subcontract” as, “‘subcontract’ means an auditable subcontract, purchase order, or other form of agreement under which materials or services are to be furnished on a flexibly priced basis to a prime contractor under a flexibly priced contract subject to DCAA audit.”

**Unallowable Costs.** As defined in FAR 2.101, “ ‘Unallowable cost’ means any cost that, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost-reimbursements, or settlements under a Government contract to which it is allocable.”

**Written Determination.** As used in the context of disallowance of costs, a “written determination” covers letters issued by ACO in regards to: i) an initial determination, ii) notice to withdraw an initial determination, or iii) notice to dismiss a DCAA Form 1. A “written determination” is to be distinguished from a “contracting officer’s final decision” issued in response to a claim submitted by a contractor as described in FAR 33.211.

## GLOSSARY

### G.2. ACRONYMS.

ACO	Administrative Contracting Officer
BoR	Boards of Review
CACO	Corporate Administrative Contracting Officer
CACWS	cumulative allowable cost worksheet
CAFU	Contract Audit Follow Up
CDRC	Contract Disputes Resolution Center
CDA	Contract Dispute Act
COFD	Contracting Officer's Final Decision
CFY	Contractor's Fiscal Year
CMO	Contract Management Office
DACO	Divisional Administrative Contracting Officer
DCMA-INST	DCMA Instruction
DCMA-MAN	DCMA Manual
DCAA/A	Defense Contract Audit Agency or Other Auditors
DCAA Form 1	"Notice of Contract Costs Suspended and/or Disapproved"
DCAM	Defense Contract CAA Contract Audit Manual
DFARS	Defense Federal Acquisition Regulation Supplement
FAR	Federal Acquisition Regulation
FYE	Fiscal Year End
GFY	Government Fiscal Year
GQA	Government Quality Assurance
IHO	Intermediate Home Office
MFR	Memorandum For Record
PCO	Procurement Contracting Officer
PNOM	Pre-Negotiation Objectives Memorandum
PNM	Price Negotiation Memorandum
QCC	Quick-Closeout Contracts
QCR	Quick-Closeout Rates

## REFERENCES

DCAA Manual 7640.1, DCAA Contract Audit Manual, December 2007, as amended  
DCMA Manual 2201-01, "Forward Pricing Rates," TBD  
DCMA Manual 2201-04, "Contract Audit Follow-Up," TBD  
DCMA Manual 2501-07, "Contract Closeout," TBD  
DCMA Manual 2501-09, "Contracts Disputes and Claims," March 26, 2018  
DCMA Manual 2501-10, "Contract Debts," April 13, 2018  
DCMA Manual 4501-06, "Records Management," TBD  
Defense Procurement and Acquisition Policy Memorandum #212-O0013, "Class Deviation –  
DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals," July 24, 2012  
Defense Federal Acquisition Regulation Supplement Subpart 242.8, as amended  
DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013  
DoD Instruction 7640.02, "Policy for Follow-Up on Contract Audit Reports," April 15, 2015  
Federal Acquisition Regulation 1.602-2  
Federal Acquisition Regulation 2.101  
Federal Acquisition Regulation 4.804  
Federal Acquisition Regulation 15.406-1  
Federal Acquisition Regulation Part 31  
Federal Acquisition Regulation 31.201-6  
Federal Acquisition Regulation 32.604  
Federal Acquisition Regulation 32.605  
Federal Acquisition Regulation 33.202  
Federal Acquisition Regulation 33.206  
Federal Acquisition Regulation 33.211  
Federal Acquisition Regulation 42.201  
Federal Acquisition Regulation 42.302  
Federal Acquisition Regulation Subpart 42.7  
Federal Acquisition Regulation Subpart 42.8  
Federal Acquisition Regulation 52.216-7  
Federal Acquisition Regulation Clause 52.216-16  
Federal Acquisition Regulation Clause 52.216-17  
Federal Acquisition Regulation 52.233-1  
Federal Acquisition Regulation 52.242-1  
Federal Acquisition Regulation Clause 52.242-3