



## DEFENSE CONTRACT MANAGEMENT AGENCY

3901 ADAMS AVENUE, BUILDING 10500  
FORT GREGG-ADAMS, VA 23801-1809

MEMORANDUM FOR COMPONENT HEADS

September 11, 2023

**SUBJECT:** DCMA Policy-Type Memorandum 23-002, Change to DCMA Manual 2201-02, "Cost Accounting Standards Administration," for "Less than Material" Noncompliances

**References:** DCMA Manual 2201-02, "Cost Accounting Standards Administration," February 17, 2019, as amended  
DCMA Manual 2201-05, "Boards of Review," December 20, 2021  
Directive 5105.64, "Defense Contract Management Agency," January 10, 2013, as amended  
Federal Acquisition Regulation, Subpart 30.605, "Processing Noncompliances"  
U.S. Government Accountability Office 18-568G, "Government Auditing Standards," July 2018

**Purpose.** This DCMA Policy-Type Memorandum (DCMA-PTM) amends DCMA Manual (DCMA-MAN) 2201-02, "Cost Accounting Standards Administration," as follows:

- This DCMA-PTM establishes procedures for processing alleged "Less than Material" noncompliance(s) with Cost Accounting Standards (CAS) requirements identified by the Defense Contract Audit Agency (DCAA). These procedures should be followed until DCMA-MAN 2201-02 is revised to incorporate the new guidance.
- A new Paragraph 3.10, "Less than Material Noncompliances," is added to describe processing alleged "Less than Material" noncompliances, as these are not described in Federal Acquisition Regulation (FAR) Subpart 30.605.
- This DCMA-PTM applies only to CAS noncompliance(s) that are categorized by DCAA as "Less than Material" or a like term<sup>1</sup> and are not included in the body of the DCAA Audit Report, but instead are included as an Appendix to the Audit Report or in a separate memorandum to the contracting officer as described in DCMA-MAN 2201-02, Paragraph 3.8.a(1) below. These alleged "Less than Material" noncompliances have not risen to the level of a reportable noncompliance and therefore do not trigger the 15-day notice and determination requirements described at FAR Subpart 30.605(b), however, should still be addressed timely. DCAA is required to notify the Cognizant Federal Agency Official (CFAO) of alleged "Less than Material" noncompliances in accordance with generally accepted government auditing standards described in the U.S. Government Accountability Office 18-568G, "Government Accounting Standards." Although processing alleged "Less than Material" noncompliances in accordance with the process in FAR Subpart 30.605 is always an option for the CFAO, there are simplified or alternate procedures outlined

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<sup>1</sup> Similar terms include but are not limited to "Noncompliance that Warrants the Attention of the Cognizant Federal Agency Official" or "Less than Significant Noncompliances."

below that should be considered and performed prior to, or instead of, initiating the process in FAR Subpart 30.605.

- A Board of Review is necessary to address disagreements with DCAA.
- Alleged “Less than Material” noncompliance(s) are not entered separately into Contract Audit Follow-Up (CAFU) or the Audit Issuance Tracking (AIT) tool unless a separate memorandum to the CFAO is received detailing the “Less than Material” noncompliance(s) and the CFAO disagrees with DCAA’s conclusion that the alleged noncompliance is “less than material” but instead considers the noncompliance material. In such cases, the CFAO must follow the process described in FAR Subpart 30.605 and Paragraph 3.8 “Processing Noncompliances.” This includes creating a record in AIT.

**Applicability.** This DCMA-PTM applies to all DCMA activities unless higher-level regulations, policy, guidance, or agreements take precedence.

**Policy.** This issuance, in accordance with the authority in DoD Directive 5105.64, “Defense Contract Management Agency (DCMA)”:

- Implements policy established in DCMA Instruction 2201, “Indirect Cost Control.”
- Provides and defines procedures and responsibilities for the Administration of Cost Accounting Standards.

**Responsibilities.** No changes in responsibilities listed in DCMA-MAN 2201-02.

**Procedures.** Section 3 is amended as follows:

**Revises Paragraph 3.8.a.,** to distinguish between “Less than Material” and “Material” noncompliances reported by DCAA.

a. “Less than Material Noncompliances” also referred to as “Noncompliance that Warrants the Attention of the CFAO”: These are typically reported as either an Appendix to a DCAA Audit Report or as a separate memorandum. ACO instructions on processing alleged “Less than Material Noncompliances” identified by DCAA will be added in accordance with Paragraph 3.10. Note that a “Less than Material Noncompliance” is different than an “immaterial noncompliance,” which has been reported by DCAA in the body of the audit report and determined immaterial by the CFAO based on FAR Subpart 30.605(b)(4) described in paragraph 3.8.e.(1). An Immaterial Noncompliance is based on an ACO’s determination in accordance with FAR Subpart 30.605(b)(4) that a noncompliance does not have a material cost impact.

b. “Material Noncompliances” included in the body of a DCAA Audit Report with an audit opinion paragraph stating the contractor is noncompliant with CAS: These noncompliances are typically included in Audit Reports using the following DCAA 5-digit Activity Codes 19100, 19200, and 19400.

**Adds Paragraph 3.10.**, Less than Material Noncompliances, to describe the procedures to be followed by the contracting officer upon receipt of DCAA transmission of alleged “Less than Material” noncompliances.

a. DCAA has an obligation under generally accepted government auditing standards under Paragraph 7.45 to communicate, in writing, to the CFAO alleged “Less than Material” noncompliance(s) with CAS requirements if the noted noncompliance could become significant in the future. These alleged “Less than Material” noncompliance(s) are described as “less than material but warranting the attention of those charged with governance.” They do not affect the audit opinion contained in the body of the audit report.

b. DCAA’s two methods of reporting alleged “Less than Material” noncompliances are dependent on their overall audit opinion. If other reportable noncompliances are described in the body of the audit report, DCAA will include alleged “Less than Material” noncompliances as an Appendix to the Audit Report as described in Paragraph 3.8.a.(1). However, if there are no other reportable noncompliances in the body of the audit report resulting in a DCAA audit opinion that the company was compliant in all material respects, alleged “Less than Material” noncompliances will be issued in a separate memorandum. Irrespective of the method of transmitting the alleged “Less than Material” noncompliances the CFAO must perform the following steps:

(1) Obtain an understanding of the alleged “Less than Material” noncompliance from DCAA, including the nature of the noncompliance, and the level of detail and sufficiency of evidential matter obtained during the audit to support the position that the practice is noncompliant. This may be based on discussions with DCAA.

- If the CFAO **does not agree** that DCAA has obtained sufficient evidential matter to support its allegation of “Less than Material” noncompliance, the CFAO should request additional audit effort from DCAA to support its position before the CFAO makes a decision. If DCAA is unable to provide sufficient evidential matter within a reasonable amount of time (5 working days) the CFAO should document that the alleged “Less than Material” noncompliance is not adequately supported, and no further action should be taken.

(2) Review DCAA’s quantitative and qualitative supporting documentation to arrive at its position that the alleged noncompliance is “Less than Material” but has the potential to become material.

- If the CFAO **does not agree** that there is a “Less than Material” noncompliance, the disagreement must be discussed with DCAA and conclusions documented in the file. The CFAO should consider obtaining advice from the functional specialist and/or local counsel. If necessary, follow DCMA-MAN 2201-05, “Boards of Review” procedures for disagreements with DCAA.

(3) If the CFAO **agrees** with the alleged “Less than Material” noncompliance and

agrees that the noncompliance has the potential to become material, CFAO should issue a letter to the contractor (the contractor template letter is available on the DCMA-MAN 2201-02 Resource Page) advising the contractor that DCAA identified an alleged “Less than Material” noncompliance and the audit agency has been requested to monitor the alleged noncompliance to determine whether the alleged “Less than Material” noncompliance becomes material. The CFAO will notify the contractor that it will request DCAA follow up within 18 months. After notifying DCAA via letter to continue monitoring (the DCAA template letter is available on the DCMA-MAN 2201-02 Resource Page), the contracting officer will not maintain follow-up on alleged “Less than Material” noncompliances. Documentation should be filed with the DCAA audit report in the official records storage location.

- If the CFAO **agrees** with the alleged noncompliance but disagrees with DCAA that the alleged noncompliance has the potential to become material, a letter to the contractor is not required. The CFAO’s conclusions must be documented in a Memorandum for Record (MFR) to disposition the memorandum issued by DCAA. The MFR should be filed with the DCAA report and/or memorandum in the official records storage location. The CFAO should consider obtaining advice from the functional specialist and/or local counsel as needed. The disagreement with findings must be communicated to DCAA. Follow DCMA-MAN 2201-05 procedures for disagreements with DCAA.
- If the CFAO **agrees** with the alleged noncompliance but considers it material rather than “Less than Material”, the CFAO must follow the process described in FAR Subpart 30.605 and Paragraph 3.8, Processing Noncompliances.

(4) The result of the CFAO review of the alleged “Less than Material” noncompliance(s), as well as a copy of the letter to the contractor, may be included with the MFR in support of the disposition of the noncompliance report; however, because “Less than Material” noncompliances have not risen to the level of a reportable finding by DCAA, they should not delay the closure of the reportable noncompliance in Contract Audit Follow-Up (CAFU)/ Audit Issuance Tracking (AIT). After notifying DCAA via letter to continue monitoring, the contracting officer will not maintain follow-up on alleged “Less than Material” noncompliances.

c. With the exception of CFAO disagreement with the alleged noncompliance or disagreement that the alleged “Less than Material” noncompliance has the potential to become material, the CFAO should send a letter to DCAA (template letter to DCAA is available on the DCMA-MAN 2201-02 Resource Page) requesting that the audit agency continue to monitor the significance of the alleged noncompliance for the next 18 months and notify the CFAO when the “Less than Material” noncompliance becomes material.

**Letters.** The template letters to the contractor and DCAA are on the DCMA-MAN 2201-02 Resource Page.

**Labor Codes.** Located on Resource Page

**Resource Page.** DCMA-MAN 2201-02, "Cost Accounting Standards Administration"

**Releasability.** Cleared for public release.

**Effective.** This DCMA-PTM is effective immediately and will be incorporated into DCMA- MAN 2201-02, “Cost Accounting Standards Administration.” This DCMA-PTM will expire effective 12 months from the date of issuance.

**Points of Contact.** Points of contact for this issuance are Ed Fleming, CAS Disclosure Statement Team, Team Lead, Cost and Pricing Regional Command, Specialty Pricing Group, phone: (781) 259-2011 or via email: edward.t.fleming4.civ@mail.mil; Pamela Meyers, CAS Policy Owner, DCMA HQ AQC, Policies and Processes, phone: (443) 884-1320 or via email: pamela.l.meyers2.civ@mail.mil.

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