DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

Policy Memo 10-C-05

MEMORANDUM FOR ALMAJCOM/FOA/DRU (Contracting) MAR 17 2010

FROM: SAF/AQC
1060 Air Force Pentagon
Washington DC 20330-1030

SUBJECT: Resolving Contract Audit Recommendations

The OUSD/DPAP memorandum titled "Resolving Contract Audit Recommendations" dated December 4, 2009, requires the Air Force to develop policies and procedures for resolving disagreements when the Contracting Officer does not include significant audit report recommendations (excluding unsupported costs) from the Defense Contract Audit Agency (DCAA) in establishing his/her pre-negotiation objective.

This memorandum sets forth Air Force policy for resolving significant disagreements when the Contracting Officer does not concur with DCAA recommendations while establishing pre-negotiation objective. A significant disagreement exists when the contracting officer's pre-negotiation plans to sustain less than 75% of the total questioned costs and recommendations in a DCAA audit report on a contractor proposal valued at $10 million or more. When significant disagreements occur, the Contracting Officer shall first attempt to resolve the issues with the auditor (prior to business clearance). If the disagreement cannot be resolved, the Contracting Officer shall document the results of the meeting with the auditor, to include the reasons for the disagreement with specific elements of costs questioned, in the pre-negotiation objective (or pre-business clearance). Further, the Contracting Officer will also provide the auditor with written communication of the disagreement (i.e. an e-mail) prior to commencing negotiations.

Should DCAA request Air Force management review, the Contracting Officer will advance the issue through their management chain and provide the name and phone number of the Senior Contracting Official (SCO) or Senior Center Contracting Official (SCCO) to the cognizant DCAA representative. If the parties are still in disagreement, the SCO or SCCO will advance the issue to the HCA to support any request from DCAA for further resolution.

Please direct any questions you have regarding this request to [redacted] SAF/AQC, DSN 425-7054.

[redacted]

Deputy Assistant Secretary (Contracting)
Assistant Secretary (Acquisition)

Attachment:
OUSD/DPAP memorandum dated, December 4, 2009

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

DEC 4 2009

MEMORANDUM FOR COMMANDER, U.S SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, U.S. TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
ASSISTANT SECRETARY OF THE ARMY
(ACQUISITION, LOGISTICS AND TECHNOLOGY)
ASSISTANT SECRETARY OF THE NAVY
ASN, (RESEARCH, DEVELOPMENT AND
ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE
(ACQUISITION)
DIRECTORS, DEFENSE AGENCIES
DIRECTORS, DOD FIELD ACTIVITIES

SUBJECT: Resolving Contract Audit Recommendations

The Department fully supports contracting officers making informed decisions within the scope of their authority utilizing the advice of specialists in audit, law, engineering, etc., as the case may be, to ensure that our contracts fulfill the requirements of our warfighters while obtaining the best business deal for the taxpayers.

This memorandum sets forth DoD's policy for resolving disagreements when the contracting officer does not include significant audit report recommendations (excluding unsupported costs) from the Defense Contract Audit Agency (DCAA) in establishing his/her pre-negotiation objective. For the purposes of this memorandum, a significant disagreement is when the contracting officer in the pre-negotiation objective plans to sustain less than 75 percent of the total recommended questioned costs in a DCAA audit report on a contactor proposal valued at $10 million or more.

It is essential that contracting officers attempt to resolve significant issues brought to their attention by DCAA audit reports. When significant disagreements occur, the contracting officer shall discuss the basis of the disagreement with the auditor prior to negotiations. The contracting officer shall document that discussion, and the basis for disagreement in the pre-negotiation objective (or pre-business clearance) and in a written communication to the auditor prior to commencing negotiations, e.g., an email confirming the discussion or a copy of the applicable portion of pre-negotiation objective. Approval of the pre-negotiation objective confirms that the discussion with DCAA and the basis for disagreement is adequately documented and supported. Once the negotiation objective is approved, the contracting officer may proceed with negotiations.

If after the discussion between the contracting officer and the auditor, the auditor does not agree with the contracting officer, DCAA's management may request that the

DoD Component's management review the contracting officer's decision. DCAA's request for the Component's higher-level review shall occur within three business days after receiving the contracting officer's written communication.

If the differences cannot ultimately be resolved at the Component's highest management level, the Director, DCAA, may contact me to discuss the disagreement. If the DCAA Director believes that I have not adequately addressed the matter, the disagreement may finally be elevated to the Under Secretaries for Defense, Acquisition, Technology, Logistics and Comptroller.

Each DoD Component shall implement procedures for this policy. The procedures will provide DCAA's Senior Executives access to refer significant disagreements for higher-level review to a Component Senior Executive (i.e., SES) or General Officer within the contracting officer's chain of command, prior to reaching my office for review. The component procedures shall also provide that the contracting officer will document the disposition of the higher-level review of disagreements in a memorandum for the contract file.

Notwithstanding the above, the DCAA Director may contact me on any disagreement with audit recommendations which he believes requires my attention, (e.g., precedent setting or of high interest to the Department).

The Military Services, the Defense Contract Management Agency, and the Defense Logistics Agency, will coordinate with Headquarters DCAA on the Components' procedures and provide DCAA with a copy of the final procedures within 60 days of this memorandum. The purpose of this coordination is to provide both parties an understanding of the persons or positions in each organization who will be involved in the higher-level review process. The remaining DoD Components will provide their proposed procedures to my point of contact below within 60 days. My office will coordinate those proposed procedures with DCAA Headquarters.

It is neither expected nor necessary that the contracting officer and the contract auditor agree on every issue. They have different, yet complementary, roles in the process. It is expected that the auditor and contracting officer will work together, recognizing that it is the contracting officer's ultimate responsibility to determine fair and reasonable contract values.

A Defense Acquisition Regulation (DAR) Council Case will be established within the next 30 days to revise the Defense Federal Acquisition Regulations Supplement (DFARS) or its companion document, Procedures, Guidance, and Information (PGI), to incorporate this policy memorandum. The point of contact for this action is [redacted] 703-602-8387 [redacted]

Director, Defense Procurement
and Acquisition Policy