



Homeland
Security

July 13, 2016

MEMORANDUM FOR: Heads of Contracting Activity

FROM: Soraya Correa
Chief Procurement Officer

A blue ink signature of Soraya Correa, written in a cursive style, overlapping the text "Chief Procurement Officer".

SUBJECT: Federal Acquisition Regulation Class Deviation (Number 16-04) – Defense Contract Audit Agency Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals

Purpose: This class deviation is issued in accordance with Federal Acquisition Regulation (FAR) 1.404 to allow contracting activities to deviate from the audit requirements at FAR 4.804-5(a)(12), 42.705-1(b)(2), and 42.705-2(b)(2)(i). This class deviation implements the October 29, 2013 Defense Contract Audit Agency (DCAA) policy regarding audits of low-risk incurred cost proposals.

Effective Date: Immediately.

Background: The Department of Homeland Security (DHS) has entered into a Memorandum of Understanding (MOU) with DCAA to accomplish FAR required audits (Appendix U of the Homeland Security Acquisition Manual (HSAM)). Included in the MOU are DCAA's audit procedures for incurred cost proposals. To ensure that DCAA's limited audit resources are applied to the areas of highest risk, DCAA developed a risk-based sampling process for auditing and reporting incurred cost proposals. Under this policy, low-risk incurred cost proposals are audited by sampling. In accordance with the MOU, when low-risk proposals are not selected for audit, DCAA will issue a memorandum to the contracting officer stating that the submission was not selected for an audit. The memorandum will include the Certificate of Final Indirect Costs, a signed rate agreement, a schedule of direct and indirect costs proposed during the fiscal year (Schedule H), and a cumulative allowable cost worksheet when possible.

Requirement: For the purposes of satisfying the audit requirements in FAR 4.804-5(a)(12), 42.705-1(b)(2), and 42.705-2(b)(2)(i), DHS contracting officers shall continue relying on either DCAA audit reports or DCAA memoranda outlined in the October 29, 2013 DCAA policy regarding audits of low-risk incurred cost proposals.

Applicability: All contract actions that include FAR clause 52.216-7, Allowable Cost and Payment.

Expiration Date: This class deviation will remain in effect until it is incorporated into the FAR or the Homeland Security Acquisition Regulation, or is otherwise rescinded.

Additional Information: Chapters 3032 and 3042 of the Homeland Security Acquisition Manual will be updated to include the provisions in the MOU between DHS and DCAA.

Questions or comments about this class deviation may be directed to Linda Stivaletti-Petty at (202) 447-5639 or email at Linda.Stivaletti@hq.dhs.gov

**Class Deviation from the Federal Acquisition Regulation (FAR)
Subparts FAR 4.804-5(a)(12), 42.705-1(b)(2), and 42.705-2(b)(2)(i) – DCAA Policy
and Procedure for Sampling Low-Risk Incurred Cost Proposals**

Findings

The Department of Homeland Security (DHS) has entered into a Memorandum of Understanding (MOU) with the Defense Contracting Audit Agency (DCAA) to accomplish Federal Acquisition Regulation (FAR) required audits (Appendix U of the Homeland Security Acquisition Manual). The MOU outlines services that DCAA will provide to DHS. As a result of matters addressed in the MOU, DHS will need to deviate from the audit requirements at FAR 4.804-5(a)(12), 42.705-1(b)(2), and 42.705-2(b)(2)(i) in order to implement DCAA's October 29, 2013 policy regarding audits of low-risk incurred cost proposals.

To ensure that DCAA's limited audit resources are applied to the areas of highest risk, DCAA developed a risk-based sampling process for auditing and reporting incurred cost proposals. Under this policy, low-risk incurred cost proposals are audited by sampling. In accordance with the MOU, when low-risk proposals are not selected for audit, DCAA will issue a memorandum to the contracting officer stating that the submission was not selected for an audit. The memorandum will include the Certificate of Final Indirect Costs, a signed rate agreement, a schedule of direct and indirect costs proposed during the fiscal year (Schedule H), and a cumulative allowable cost worksheet when possible.

Determination

In accordance with FAR 1.404, I hereby issue a class deviation to FAR 4.804-5(a)(12), 42.705-1(b)(2), and 42.705-2(b)(2)(i). This class deviation implements the October 29, 2013 DCAA policy regarding audits of low-risk incurred cost proposals. This deviation permits DHS contracting officers to continue relying on either DCAA audit reports or DCAA memoranda to satisfy the audit requirements in the FAR.

As required by FAR 1.404, the Office of the Chief Procurement Officer has consulted with the Chairperson of the Civilian Agency Acquisition Council regarding this class deviation.

This class deviation will remain in effect until it is incorporated into the FAR or the Homeland Security Acquisition Regulation, or is otherwise rescinded.



Soraya Correa
Chief Procurement Officer
Department of Homeland Security

July 13, 2016
Date