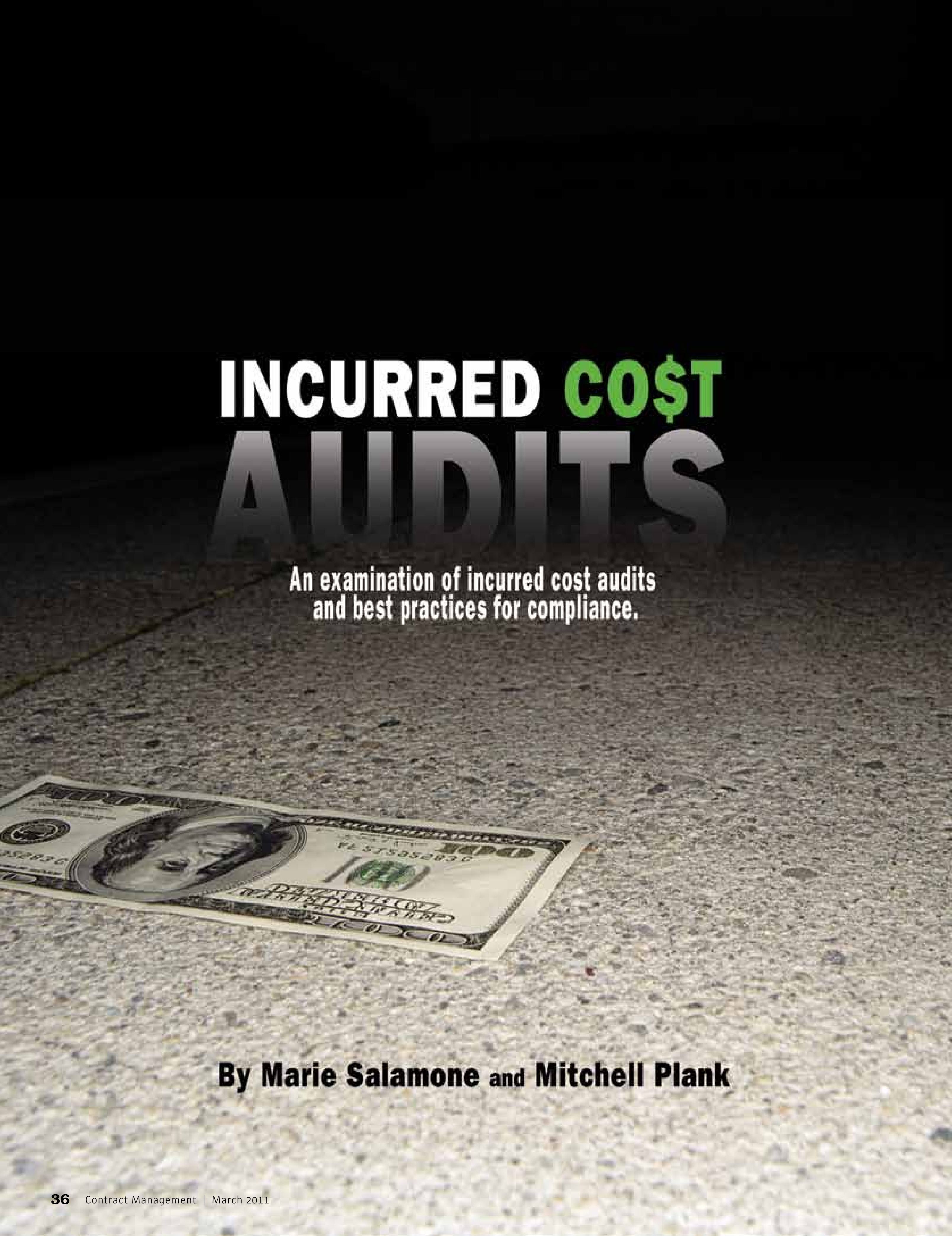

INCURRED CO$T AUDITS

An examination of incurred cost audits and best practices for compliance.

By Marie Salamone and Mitchell Plank

Government contractors who incur costs on behalf of the government via contracts, grants, loans, or other contract vehicles are subject to incurred cost audits by the federal procuring agency.[1] If the procuring agency does not have this audit capability, they can request the Department of Defense's (DOD) audit agency, the Defense Contract Audit Agency (DCAA), to perform this audit for a fee arrangement.

There are a variety of incurred cost audit programs developed by DCAA, which can be found on its website.[2] The complexity of the audits increases with the amount of auditable dollar volume of contracts and with the risk of the contract types. Government contractors with negotiated contracts, cost-reimbursable contracts, and/or time-and-material contracts will be subject to more complex audits. While DCAA primarily performs audits on DOD contractors, it has performed audits on behalf of other agencies on a cost-reimbursable basis—e.g., for the National Aeronautics and Space Administration.

Objectives of the Incurred Cost Audit

The primary objective of all incurred cost audits is for the auditor to examine the contractor's cost representations and express an opinion on those costs. The auditor expresses an opinion based on whether costs are reasonable; applicable to the contract; comply with Generally Accepted Accounting Principles and Cost Accounting Standards (CAS), if applicable; and are not prohibited by the contract, statutes, regulations (i.e., the *Federal Acquisition Regulation* (*FAR*)), and/or previous agreements with the contracting officer. Secondary, but related objectives of the audit include determining whether the accounting system is adequate for future cost determinations, conducting an adequate review to detect fraud or other unlawful activity, and determining if the possibility exists that these acts could affect the primary objective.

Scope of the Incurred Cost Audit

The scope of the incurred cost audit can vary greatly and depend on a number of factors, including the contractor's auditable dollar volume (ADV) and general risk level assigned with the contractor's incurred cost proposal. ADV represents the contractor's total dollars incurred for the contractor fiscal year for flexibly priced contracts. Risk level is defined as high or low based on a number of circumstances, but best defined on the ADV for the given contractor's fiscal year:

- Under $500,000 are considered "non-major" and considered "low risk" if the following thresholds are met:
  - No audit leads with a high probability of significant questioned costs,
  - Past incurred cost audit experience with the contractor, and
  - One of the contractor's prior two incurred cost proposals has been audited;
- Between $500,000 and $15 million are considered "non-major" and will be considered "low risk" if the following additional thresholds beyond those used for the under $500,000 ADV are met:
  - No "significant questioned costs" were found in the prior audit (significant questioned costs are defined as costs having a material impact), and
  - The materiality is generally defined, in this respect, as questioned costs of $10,000 or more on flexibly priced government contracts that are recurring;
- Between $15 million and $90 million are considered "non-major" and will be considered "high risk"; and
- Over $90 million is considered "major" and will be considered "high risk."

Once risk has been assigned to the contractor's incurred cost proposal, the low risk proposals are sampled so that one-third of all low risk proposals is audited. This measure helps to ensure that contractor incurred cost proposals are reviewed at least once every three years. The low risk incurred cost proposals not sampled will be audited using a "Non-Major Desk Review" audit program. The low risk incurred cost proposals selected in the sample will be audited using a "Non-Major Post Year End" audit program. The same audit program will be used for those incurred cost proposals selected as "high risk" under $90 million ADV. The incurred cost proposals above $90 million ADV will be audited using a "Major Post Year End" audit program. As each audit program does not have all the same steps, the scope of the audit will correspond to the number and involvement of steps in the audit program.

Audits of incurred costs are generally planned on a contractor-wide basis in order to be efficient, as opposed to contract-based audits. In addition, the auditor will evaluate management's "tone from the top," as well as the adequacy of the contractor's business systems controls. The audit will emphasize four major areas:

- Reasonableness of claimed costs—the auditor will make a determination of the acceptability of claimed costs, both in the nature of the costs and the amount of the costs.
- Allocability of claimed costs—the auditor will determine if the claimed costs are properly allocated.
- Ability to measure claimed costs—the auditor will determine if the claimed costs are able to be properly measured.
- Limitations and restrictions of costs to be claimed—the auditor will evaluate if claimed costs are in compliance with limitations or exclusions expressly stated in the *FAR* or in the contract(s).

In developing a plan for the incurred cost audit, auditors will consider a variety of factors. DCAA provides guidance and procedures in its *DCAA Contract Audit Manual* (*DCAM*)[3] as the basis for government audits in addition to the auditor's professional judgment.

Concurrent Audits

If a contractor meets certain conditions, the incurred cost proposal can be audited using concurrent audit procedures. Concurrent auditing occurs prior to receipt of the contractor's incurred cost proposal. Conditions that make a contractor eligible include:

- All prior year incurred cost audits must be planned for completion during the current fiscal year,
- The contractor's indirect/other direct cost (ODC) system and accounting system are adequate,
- The contractor must have adequate screening for determination of expressly unallowable costs, and

Desk Review

1. Low-Risk Proposal
2. Low ADV < $15 million
3. Not Selected for Sample (assumes contractor has been audited in last three years)
4. Represents 2/3 of Low Risk Proposal Pool
5. Audit Program Activity Code 10100 Incurred Cost—Non-Major Desk Review

Non-Major Standard Audit

1. Low- or High-Risk Proposal
2. ADV < $90 million & ADV < $15 million not audited in last three years
3. Represents 1/3 of Low Risk Proposal Pool and All High Risk Proposals Under $90 million ADV
4. Audit Program Activity Code 10100 Incurred Cost—Non-Major Post Year End

Major Standard Audit

1. High-Risk Proposal
2. ADV > $90 million
3. Represents All High-Risk Proposals Over $90 million ADV
4. Audit Program Activity Code 10100 Incurred Cost—Major Post Year End Audit

FIGURE 1. TYPES OF INCURRED COST PROPOSAL AUDITS

- The contractor must agree to support the concurrent audit process through to completion.

Once all conditions are met, the contractor is considered eligible for concurrent audit procedures and may be audited using the "Concurrent Auditing Major & Non-Major" audit program.

Mandatory Annual Audit Requirements

Mandatory Annual Audit Requirements (MAARs) were developed by DCAA in order for its audits to comply with Generally Accepted Government Auditing Standards in the incurred cost contract audit environment. The requirements delineated in the MAARs cover a variety of purposes and evaluate a number of transaction types. There are 19 numbered MAARs, two of which contain no content and are labeled "Reserved." As a result, there are 17 MAARs that can be classified into the following five categories:

1 | Updates to Permanent Files (MAARs 1, 3, and 7)

a) MAAR No. 1—ICAPS or ICQ.

b) MAAR No. 3—Permanent Files.

c) MAAR No. 7—Changes in Charging Direct/Indirect Costs.

2 | Reconciliations (MAARs 2, 4, 9, 14, 15, and 19)

a) MAAR No. 2—Contract Cost Analysis and Reconciliation to Books.

b) MAAR No. 4—Tax Returns and Financial Statements.

c) MAAR No. 9—Payroll/Labor Distribution Reconciliation and Tracing.

d) MAAR No. 14—Pools/Bases Reconciliation to Books.

e) MAAR No. 15—Indirect Cost Comparison with Prior Years and Budgets.

f) MAAR No. 19—Indirect Rate Computations.

3 | Transaction Tests (MAARs 10 and 16)

a) MAAR No. 10—Adjusting Entries and Exception Reports.

b) MAAR No. 16—Indirect Account Analysis.

4 | Concurrent Procedures (MAARs 6 and 13)

a) MAAR No. 6—Labor Floor Checks or Interviews.

b) MAAR No. 13—Purchases Existence and Consumption.

5 | Concurrent Implications (MAARs 5, 8, 12, and 18)

a) MAAR No. 5—General Ledger, Trial Balance, and/or Credit Adjustments.

b) MAAR No. 8—Comparative Analysis of Sensitive Labor Accounts.

c) MAAR No. 12—Auditable Subcontracts/Assist Audits.

d) MAAR No. 18—Indirect Allocation Bases.

MAARs that are considered updates to permanent files are performed continually and are not associated with any one given fiscal year for a contractor. Nor do these MAARs relate only to the incurred cost audit. Reconciliations are performed as preliminary audit steps, typically. Transaction testing is a type of historical testing that does not necessarily have to wait until the following fiscal year. Concurrent procedures, on the other hand, must be applied during the fiscal year being audited. Concurrent implication type requirements do not have to be developed in the fiscal year being audited and usually are not, but have implications to the current year being audited. For instance, while the actual indirect cost pool bases may not have been calculated, the structure of these bases will have been established prior to the start of the current fiscal year. These requirements are viewed as the core requirements for management of the incurred cost audits.

The MAARs are summarized in the "Schedule of Mandatory Annual Audit Requirements" contained within Table 6-1S1 Supplement in Chapter 6 of the *DCAM*. The MAARs were developed, in part, to assist auditors in defining the appropriate scope of the audit. The MAARs can also assist contractors in preparing for incurred cost audits. The Table 6-1S1 Supplement delineates the MAARs as defined by DCAA and also indicates how the MAARs relate to an incurred cost proposal required to be prepared by many government contractors. It also provides guidance to contractors in the form of recommended actions to be taken in preparation of the incurred cost audit.

Incurred Cost Audits

There are a number of incurred cost audits. The audits of a contractor's incurred cost proposals are based on the level of risk and the amount of auditable dollar volume. **FIGURE 1** on page 39 depicts the three types of audits of incurred cost proposals.

Audit of Low Risk Proposals—Desk Review

A desk review is performed for contractors with low-risk proposals that have an ADV which totals less than $15 million in the contractor's fiscal year for its flexibly-priced contracts and which have not been chosen in the audit sample. The annual incurred cost proposals from contractors with an ADV of less than $15 million will either be audited or desk reviewed. Desk review procedures will be applied to approximately two-thirds of the pool of low-risk proposals.

Audit of Low- and High-Risk Proposals—Non-Major Standard Audit Program

Audits will be performed for low-risk proposals chosen through sampling. Approximately one-third of all low-risk proposals are audited using the non-major standard audit program. All high-risk proposals where the ADV totals less than $90 million in the contractor's fiscal year for its flexibly-priced contracts are audited using this audit program as well.

Audit of High-Risk Proposals—Major Standard Audit Program

Audits will be performed for all high-risk incurred cost proposals for an ADV that totals more than $90 million in the contractor's fiscal year for its flexibly-priced contracts. Generally, MAARs will be performed at all major contractors. However, MAARs can be omitted under certain considerations, including:

- Amount of costs claimed,
- Results of prior audits, and
- Adequacy of contractor's internal controls.

Conversely, the decision to perform a MAAR should not be based on materiality.[4]

For these audits, DCAA will use *DCAM* Chapter 6, as well as audit programs under activity code 10100 for incurred cost proposal audits. Details in this article have been adapted from these sources. While there are other incurred cost audits, this article focuses on the incurred cost audits for incurred cost proposals.

Common Components of Incurred Cost Proposal Audits

Each of the three types of incurred cost proposal audits will be comprised of three major components:

- A review of direct labor costs,
- A review of ODCs and subcontract costs, and
- A review of the indirect costs and indirect rate calculations.

The level of review for each of these components correlates to the type of incurred cost proposal audit being conducted. The primary focus of the desk review will be reviewing the indirect costs and indirect rate calculations. Conversely, direct costs will be reviewed and analyzed to a lesser extent. The audit program for desk reviews is described in more detail below.

Non-major standard audits are more complex than desk reviews. While the primary focus of the audit is reviewing the indirect costs and indirect rate calculations, review of direct labor costs becomes more critical. The audit program for non-major standard audits is also described in more detail below.

Major standard audits are highly detailed, complex audits; more complex than both the desk reviews and the non-major standard audits. The audit contains detailed elements of all three incurred cost proposal components described above. The audit program for major standard audits is also described in more detail below.

Desk Review Audit Program

As desk reviews are performed on contractor-incurred cost proposals with low risk, the audit steps contained within the audit program are meant to be brief in reaching an opinion. The first step in reviewing all incurred cost proposals is to test for adequacy. Upon receipt, the auditor will evaluate the proposal for adequacy using the DCAA guide on contractor incurred cost proposal adequacy. If the auditor determines the proposal is inadequate in any way, the submission is returned to the contractor for correction.

This "back-and-forth" may occur several times before the proposal is deemed adequate, due to stringent adequacy measures. Often,

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Understand the Approach of the DCAA Auditor	Be Prepared for DCAA Auditor	Control Access to Confidential Materials

• Review Chapter 6 of the DCAM
• Understand DCAA Mandatory Annual Audit Requirements (MAARs), if Applicable
	• Prepare Support Documentation
	  • Retrieve Offsite Files
	  • Make Copies Available
	  • Organize Binders
	• Provide Personnel Support to Auditor
	• Office Space and Supplies
		• Establish Parameters such as "No Note Taking," "No Copies"
		• Provide a Monitor
		• Identify Confidential and Sensitive Materials

FIGURE 2.

the only acceptable format is that which is presented in the Incurred Cost Electronically (ICE) Model, which is provided by DCAA as an example. Also, if significant questioned costs are identified at any time during the review, the review will be converted into a non-major standard audit.

Contractors that undergo a desk review should focus on the following items to prepare an adequate incurred cost proposal and prepare for the review:

- Utilize DCAA's ICE Model for its incurred cost proposal,
- Verify the mathematical accuracy of the proposal,
- Verify that the schedules within the submission are properly linked,
- Review contract terms and conditions and *FAR* Part 31 to identify unallowable costs,
- Ensure that unallowable costs have been removed from all claimed costs, and
- Ensure that all federally-funded contracts are briefed.

Non-Major Standard Audit Program

Non-major standard audit programs are performed on low-risk, contractor-incurred cost proposals chosen through sampling and high-risk incurred cost proposals for an ADV that totals less than $90 million in the contractor fiscal year for flexibly priced contracts. The audit is meant to determine if costs charged to auditable government contracts are allowable, allocable, and reasonable in accordance with contract terms and applicable government acquisition regulations. In general, the steps contained in the desk review would also be conducted on the non-major standard audit program.

Contractors that undergo a non-major incurred cost audit should focus on the following items to prepare an adequate incurred cost proposal and prepare for the audit:

- Focus on all critical takeaways previously identified for the desk review;
- Provide the auditors with access to the contractor's personnel involved in preparing the incurred cost proposal;
- The auditor will note the contractor's reaction during the exit conference, and this reaction will be included in the final audit report; and
- The auditor has the option to have the contractor prepare the cumulative allowable cost worksheet.

Major Standard Audit Program

Major standard audit programs are performed on all high-risk, contractor-incurred cost proposals. By definition, any incurred cost proposal that contains more than $90 million in ADV is considered high risk. The main purpose of this audit is similar to the desk review and the non-major standard audit program in that all three programs were developed to determine whether costs charged to auditable government contracts are reasonable, allowable, and allocable in accordance with the contract and applicable government acquisition regulations. The major standard audit program differs from the other two in the following ways:

- The major standard audit program generally incorporates the MAARs;
- The audit steps are internally cross-referenced and referenced to the *DCAM*, the Cost Accounting Standards (CAS) and the contractor's CAS Board Disclosure Statement, the *FAR* and *Defense FAR Supplement*, the ICAPS, and the MAARs;
- Contractor compliance with the applicable CAS requirements will be considered (compliance with certain CAS 412 and 413 provisions related to defined benefit pension plans must be tested annually, even if there are no pension costs incurred); and
- Testing of paid vouchers may be conducted with this program for contractors that participate in the direct billing program.

Contractors who undergo a major incurred cost audit should focus on the following items to prepare an adequate incurred cost proposal and prepare for the audit:

- Focus on all critical takeaways previously identified for the desk review and non-major standard audit program;
- Transaction testing should not ordinarily proceed until all required data have been made available;
- Contracts must be made available to the auditor for review, and contract files should be in good order and easily accessible;
- If all applicable contracts are not adequately briefed, the auditor may cite the contractor for a billing system deficiency;
- Incurred cost proposal audits may prompt the auditor to recommend other audits;
- Contractors should be diligent in identifying and removing unallowable costs from their claimed costs, and when an unallowable cost is incurred, make sure that its directly associated costs are also unallowable;
- If a directly associated cost is included in a cost pool that is allocated over a base that includes the unallowable cost with which it is associated, the directly associated cost should be removed from the cost pool;
- If the unallowable cost is not included in the allocation base, the directly associated cost, if material in amount, must be purged from the cost pool as unallowable costs; and
- Pension and insurance costs are audited by the FAO cognizant for the contractor location where the plans are administered and the costs are incurred.

Preparing for the Incurred Cost Audit

Contractors who have submitted an incurred cost proposal can accomplish a number of tasks in anticipation of an incurred cost audit (see **FIGURE 2** on page 42). For contractors preparing for a DCAA incurred cost audit, there are items which DCAA will expect to review. While not identified by DCAA as such, the *DCAM* presents compliance requirements for contractors related to incurred cost audits. These items have been identified in **FIGURE 3** on pages 44–45 as compliance requirements for government contractors. These requirements were extracted from Chapter No. 6 of the *DCAM* and are in addition to compliance requirements required from an incurred cost submission.

Impending Proposed Changes

On August 20, 2009, the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council proposed an amendment to the *FAR* to revise contract closeout procedures.[5] Included in that amendment are two major changes relative to the determination of adequacy of an incurred cost proposal. Adequacy is very important when concerning an incurred cost proposal as it generally needs to be achieved before audit procedures can begin.

The first major change is to turn the responsibility for determination of adequacy from the contracting officer over to the cognizant auditor. Currently, the cognizant auditor's role is to act as an advisor to the contracting officer and provide his or her interpretation relative to the adequacy of the incurred cost proposal. In most cases, the contracting officer will follow the auditor's advice; however, as it stands, the cognizant auditor's role is purely one of advisement relative to this decision.

The second major change involves how that decision is made relative to whether the incurred cost proposal is adequate. The proposed amendment dictates that an adequate incurred cost proposal will include a number of schedules and data points. These schedules and data points are the same as those included in the ICE Model constructed by DCAA. This is a deviation from the current language in the FAR that notes that the required content will vary, but for an example of what generally constitutes an adequate incurred cost proposal, refer to the DCAA ICE Model.

While both changes are meant to streamline the closeout process by providing a straightforward answer to the questions around adequacy, this will be a major departure from the original intent of those who designed the regulations.

Conclusion

The audit objectives of an incurred cost proposal audit are to evaluate and determine:

- The allowability, allocability, and reasonableness of the costs charged to government contracts;

TOPIC	COMPLIANCE REQUIREMENT
Internal control audit planning summary and/or internal control questionnaire	Develop policies and procedures to evaluate any potential changes to internal controls. Require the system to capture any changes to internal controls.
General ledger, trial balance, income and/or credit adjustments	Develop policies and procedures to analyze the general ledger, trial balance, and other income/accounting adjustments (e.g., unusual and/or sensitive journal entries). Require the ability for the system to create an exception report to analyze the general ledger, trial balance, and other income/accounting adjustments (e.g., unusual and/or sensitive journal entries).
General ledger, trial balance, income and/or credit adjustments	Develop a procedure to review the exception report to analyze the general ledger, trial balance, and other income/accounting adjustments (e.g., unusual and/or sensitive journal entries).
Labor floor checks or interviews	Develop policies and procedures to perform floor checks, interviews, and/or other physical observations, and related analysis of employee timekeeping on a concurrent basis. Require the system to capture the results of the floor checks, interviews, and/or other physical observations, and related analysis of employee timekeeping on a concurrent basis.
Comparative analysis-sensitive labor account	Develop policies and procedures to perform a comparative analysis of sensitive labor accounts. Require the system to create a report of comparative analysis of sensitive labor accounts.
Comparative analysis-sensitive labor account	Require a procedure to review the report of comparative analysis of sensitive labor accounts.
Payroll/labor distribution reconciliation and tracing	Develop policies and procedures to evaluate the labor hours distribution. Require the system to generate a reconciliation/exception report and an audit trail on the labor hours distribution.
Payroll/labor distribution reconciliation and tracing	Require a procedure to review the reconciliation/exception report on the labor hours distribution.
Adjusting entries and exception reports	Develop policies and procedures to evaluate adjusting journal entries and exception reports for both direct and indirect costs. Require the system to generate adjusting journal entries and exception reports for both direct and indirect costs.
Adjusting entries and exception reports	Require a procedure to review the adjusting journal entries and exception reports for both direct and indirect costs.
Auditable subcontracts/ assist audits	Develop policies and procedures to evaluate auditable type subcontracts orders issued by the contractor. Require the ability to produce supporting documentation to evaluate subcontracts orders issued by the contractor.
Purchases existence and consumption	Develop policies and procedures to consistently track the receipt of ordering, delivery, deployment, and disposition (sale or scrap) of purchased materials and services on behalf of the government. Require the system to consistently track the receipt of ordering, delivery, deployment, and disposition (sale or scrap) of purchased materials and services on behalf of the government.
Indirect account analysis	Develop policies and procedures to evaluate selected indirect cost accounts or transactions, such as sensitive accounts, new accounts, etc. Require ability for the system to identify indirect accounts with large variances.
Indirect account analysis	Require a procedure to evaluate indirect accounts with large variances.
Evaluate contract effects of indirect cost changes	Develop policies and procedures for evaluating the effect in dollars of changes in indirect cost methods on existing contracts. Require ability in the system to report the effect in dollars of a change in indirect cost methods on existing contracts.
Base hierarchy	Develop policies and procedures for identification of a base hierarchy for indirect cost pools that are not related to cost management or supervision of direct labor or direct material.
Government-owned, contractor-occupied facilities	Develop policies and procedures to develop a separate indirect rate for any project where work is performed in a government-owned, contractor-occupied facility.
Government-owned, contractor-occupied facilities	Require ability in the system to capture and apply the identified, special indirect rates for any project where work is performed in a government-owned, contractor-occupied facility.
Indirect cost account ratios	Require ability in the system to calculate the ratio of each indirect cost account to the total indirect allocation base.
Indirect cost account ratios	Require ability in the system to report any significant fluctuations in the ratio of an indirect cost account to the total indirect allocation base.
Indirect cost account ratios	Develop procedures to review and determine causality of any significant fluctuations in the ratio of an indirect cost account to the total indirect allocation base.

TOPIC	COMPLIANCE REQUIREMENT
Comparison of disclosure statement to allocation bases	Develop policies and procedures to verify the composition of the allocation bases match what is described in the disclosure statement.
Adjustment of interim indirect rates	Require a procedure to submit a separate invoice for retroactive indirect rate adjustments when the final indirect rate is accepted.
Adjustment of interim indirect rates	Require a procedure to submit a copy of the indirect cost rate agreement with the separate invoice for retroactive indirect rate adjustments when the final indirect rate is negotiated.
Adjustment of interim indirect rates	Require a procedure to submit a copy of the contracting officer's unilateral decision with the separate invoice for retroactive indirect rate adjustments when the final indirect rate is unilaterally determined by the contracting officer.
Adjustment of interim indirect rates	Require a procedure to credit the government within 30 days for overbillings that result from finalized indirect rates that are lower than interim indirect rates.
Submission of indirect cost proposal	Require a procedure to document the location of incurred cost data used to support the final indirect rate proposal.
Actions taken at the completion of audit	Require a procedure to prepare a rebuttal for issues with unresolved audit findings prior to attending final exit conference with DCAA auditors, if necessary.
Actions taken at the completion of audit	Require a procedure to furnish any new information that may help in resolving open issues within 30 days of receiving final written audit results.
Signing final written rate agreement	Require a procedure to ensure that the final written rate agreement is signed within 10 days and submitted to the auditor.
Preparation of the cumulative allowable cost worksheet	Develop policies and procedures to prepare the cumulative allowable cost worksheet. Require the ability in the system to generate the cumulative allowable cost worksheet.

FIGURE 3.

- The propriety of the methods used to allocate indirect costs to government contracts;
- The appropriateness of the bases used to apportion indirect costs;
- The appropriateness of the indirect cost period;
- The consistency of the application of policies and procedures; and
- The mathematical accuracy of the computed final indirect cost rates

For most high-risk proposals, the audit should provide for the accomplishment of MAARs and should include:

- An evaluation of the contractor's system of internal controls, including the means by which all echelons of management control the level of indirect costs;
- An evaluation of the composition and suitability of the allocation bases;
- An evaluation of the composition of the various indirect cost pools to ascertain whether they are logical and bear a reasonable relationship to the bases used for apportioning expenses to operations;
- An evaluation of selected indirect cost accounts;
- A verification to the financial records; and
- A verification of the mathematical accuracy of the rate computation. **CM**

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Send comments about this article to cm@ncmahq.org.

ENDNOTES

1. *See Federal Acquisition Regulation* (*FAR*) Part 52.216-7, "Allowable Cost and Payment Clause"; and FAR 42.7, "Indirect Cost Rates."
2. *See* "List of Defense Contract Audit Agency Audit Programs and Other Audit Guidance (OAG) Documents," *available at* **www.dcaa.mil/standardguidance.htm**.
3. *See DCAM*, Chapter 6: "Incurred Cost Audit Procedures," *available at* **www.dcaa.mil/cam.htm**.
4. *See DCAM* 7640.1, Chapter 6, 6-105, "Mandatory Annual Audit Requirements": 607.
5. *Federal Register*, 74(160), "FAR Case 2008-020" (Thursday, August 20, 2009), Proposed Rules.