Statistical sampling can be a valuable tool to collect and evaluate information about a large population, or universe, when it would otherwise be impractical (or impossible) to collect that information from the entire population. When done properly, statistical samples enable reasonable inferences to be drawn about the population based on information about the sample. Additionally, one will have an objective measure of the possible variation between samples and of the sample's relationship to the population. However, because “statistics by their very nature present an incomplete and potentially misleading description of the population,” to be reliable and useful, a sample must be designed, executed and analyzed using appropriate statistical analysis techniques.

Although focused on the Defense Contract Audit Agency's methodology for evaluating the reasonableness of contractor compensation costs, the Armed Services Board of Contract Appeals' recent decisions in the appeals of J.F. Taylor, Inc. raised numerous significant issues regarding DCAA's use and inter-

pretations of statistical samples to form audit conclusions. These decisions, coupled with more recent criticisms by the Department of Defense inspector general regarding the quality of DCAA's statistical sampling plans, and updated DCAA guidance underscoring “the complexities involved and the number of decisions that must occur” in designing and executing an appropriate and statistically valid sampling plan, emphasize the importance of contractor involvement and attention to DCAA's use of statistical sampling in its audits to minimize the risk of unreliable audit findings and the potential for financial non-recovery and penalties.

This article highlights issues raised by the J.F. Taylor decisions and discusses how DCAA uses survey data and statistical sampling in other types of audits. It also addresses the policies that govern DCAA's use of sampling techniques, and outlines steps that can be taken to mitigate the potential risks associated with DCAA's use of statistical sampling to form audit conclusions.

DCAA's Misuse of Statistical Samples to Determine Compensation Reasonableness

In J.F. Taylor, the ASBCA rejected the Government's disallowance of executive compensation costs that relied on a DCAA methodology using statistical samples of compensation data, which the ASBCA determined was “fatally flawed statistically and therefore unreasonable.” DCAA's methodology for evaluating the reasonableness of executive compensation is established in chapter 6, § 414 of the DCAA Contract Audit Manual (DCAM). The methodology relies on the use of compensation surveys, which are statistical samples, to obtain information about the amount of compensation paid by (ostensibly) comparable companies, which DCAA then compares to the contractor's compensation costs to determine whether the contractor's costs are “reasonable.”

Although the Government acknowledged that the survey data are statistical in nature and, as such, inherently variable and thus imprecise, the evidence revealed that DCAA does not perform any statistical analysis of the sample data it uses for its comparisons. Chief among the many statistical flaws in DCAA's methodology is that it ignores the actual amount of dispersion among the survey data and instead applies an arbitrary 10-percent “range of reasonableness” to the compensation amount selected for the basis of DCAA's comparison (e.g., “Step 6” in its process). Data dispersion is a measure of how close the data are to each other, and therefore how precise the prediction of “reasonable compensation” is as a result of using that sample.

J.F. Taylor's expert, Jimmy Jackson, testified, and the Board agreed, that DCAA's use of a static 10-percent adjustment factor in each
and every instance—ostensibly to account for the variability inherent in the survey data, but without regard to the actual amount of data dispersion in the surveys—was wrong as a matter of basic statistical analysis. As a result of DCAA's flawed methodology and other errors in the execution of DCAA's compensation review, DCAA's “estimation of unallowable Taylor executive compensation [was] significantly overstated and speculative.”

J.F. Taylor successfully demonstrated the reasonableness of its executive compensation costs using the same surveys, but correcting for DCAA's statistical and other errors in its review. Notwithstanding the ASBCA's decision, DCAA continues to adhere to the same methodology, including its “policy to use 10 percent as the range of reasonableness.” It is worth noting that DCAA's use of survey data to establish the “reasonableness” of compensation costs is not limited to executive compensation. We have observed DCAA's use of the same methodology at the executive level beyond the top five, and even at the direct labor level.

**DCAA’s Other Uses of Surveys**

DCAA's use of surveys to evaluate cost reasonableness is not limited to compensation. We have also noted a number of instances in which DCAA has used survey data to evaluate the reasonableness of other cost elements, such as the costs of air travel. For example, DCAA uses survey data to determine average flight costs to establish the maximum allowable recommendation for the reasonableness of airline tickets.

By selecting the average as the amount that is “reasonable,” the DCAA audit position is almost guaranteed to question half of the flight costs incurred—anything above the average!—without regard to the amount of data dispersion. However, anyone who has ever bought an airline ticket recognizes there is a great deal of dispersion, or variability, at different periods, such as when the ticket is purchased. Yet DCAA does not consider any of these factors (much less the fundamental requirements of the travel cost principle) in determining whether the ticket purchase price was reasonable.

**DCAA's Use of Sampling Techniques in Other Audit Areas**

DCAA's use of statistical (and nonstatistical) sampling in other audit areas has also recently come under fire by the DOD IG. Based on its review of fiscal year 2010 DCAA audits, the DOD IG found that DCAA did not exercise professional judgment in performing 74 percent of the assignments reviewed. Specifically, the DOD IG determined that “significant quality issues” existed, including in the areas of “external impairments to independence, inadequate planning, poor communications with the requester and contractor, insufficient evidence, unsupported or untimely reports, poor documentation, and ineffective supervision and quality control.”

With respect to statistical sampling, the IG found that in seven of eight engagements using statistical sampling, “the auditor did not use an appropriate confidence level in the statistical sampling plan.” The IG also found deficiencies in nine of 23 engagements involving the use of nonstatistical samples. Although the IG's concern about these deficiencies was understandably related to the potential risk of Government reimbursement of unallowable costs, the risk of unreliable audit findings due to a poorly developed or executed sampling plan also increases the risk to contractors by, for example, overestimating the amount of unallowable costs, and potentially the application of penalties and interest on those costs.

In addition, erroneous statistical sampling techniques in audits of contractors' business systems resulting in “deficiencies” may result in payment withholds and the incurrence of costs to correct the alleged deficiencies. Those
costs and potential inefficiencies going forward increase the costs paid by the Government for goods and services.

As a result of the IG’s findings, DCAA issued revised audit guidance for statistical and non-statistical sampling. The revised guidance, which is reflected in part in DCAM chapter 4 and appendix B, made significant revisions to DCAApolicies for variable and attribute sampling, including changes related to establishing sample size, evaluating sample results, and reporting sample results in audit reports. We discuss below two of the statistical analysis methods used by DCAA, variable and attribute sampling, and DCAA's guidance regarding the use of these audit sampling techniques.

**Variable Sampling**

Many contractors are likely to be familiar with variable sampling as part of audits performed by DCAA or other auditors. Variable sampling is a method by which auditors can estimate a total value for an entire population. DCAAtypically uses variablesampling to estimate the total amount of questioned costs within a particular cost account (e.g., the sample universe). The DCAM describes variablesampling, in relevant part, as follows:

Variable sampling is generally used to verify account transactions or balances and to note any differences. This type of sampling is substantive testing (as opposed to compliance testing) whereby sample items are evaluated for error amounts or variables (as opposed to attributes). The audit sampling universe (e.g., accounts, vouchers, or bill of material) is the entire grouping of items from which a sample will be drawn. Variable sampling can be widely applied in contract auditing, for example to proposals, incurred costs, progress payments, forward pricing rates, and defective pricing.

When using variable sampling to estimate total questioned costs, the sample evaluation results are usually expressed in terms of a “point estimate” of unallowable, or questioned, costs in the sample universe. DCAA uses the point estimate to project any findings from the sample, e.g., an account, to the broader universe. In fact, DCAA policy states that the only time that monetary projections are to be made is when statistical methods are used. DCAA uses the point estimate because, according to DCAA, this “strikes a balance between potential overstatement and understatement of the true amount.”

However, when describing the statistical reliability of sample findings, DCAA's guidance acknowledges that the amount estimated by the sample will fall within a specified range (or confidence interval), which is usually defined as the point estimate plus or minus the precision amount. Precision refers to the accuracy of the point estimate by showing, for a specified confidence level, how much the point estimate may vary from the true universe amount. The confidence level represents how confident one is that the result will capture the true population parameter.

Thus, a 90-percent confidence level indicates that with repeated sampling under the same sampling plan, 90 times out of 100 the actual universe amount is expected to be within the interval computed from the results. This means that each number within the confidence interval is as statistically valid as any other, including the amount at the low end of the confidence interval. However, instead of using the estimated amount at the low end of the interval when projecting questioned costs, as DCAA had previously instructed auditors when stating amounts subject to penalties, DCAA uses the higher point estimate.

The general assumption in statistical sampling is that each dollar sampled is representative of the larger universe of items from which the sample was taken. In lay terms, this means that if a sample results in $20 of questioned cost, the auditor will assume that a similar proportion of unallowable costs is present in the larger universe. The auditor will therefore
extrapolate the amount of unallowable costs in the sample to the total universe, thereby transforming, in this example, the $20 in questioned costs from the sample to potentially thousands of dollars in total questioned costs, plus, potentially, penalties and interest.

Accordingly, it is important that contractors understand when DCAA is using statistical sampling as part of the audits being performed, and how the sample will be interpreted and used. Contractors should also take care to provide adequate supporting documentation to validate that the transactions being tested satisfy the Federal Acquisition Regulation's allowability requirements, and ensure that the auditor understands the nuances of the documentation provided, including the audit trail supporting the transaction.

In theory, DCAA simplifies audits performed using statistical sampling by selecting a small number of transactions to audit. However, DCAA often uses large sample sizes or fails to combine multiple accounts or cost pools that are essentially homogenous, resulting in requests for exponentially more supporting documentation. These decisions are made when the auditor develops the sample plan, which requires that the auditor have an understanding of the internal control or account to be tested. Consistent with DCAA's guidance, discussed further below, contractors should ask DCAA to describe the proposed sampling plan, including the process to be used, the various accounts to be sampled, and how the results will be interpreted, utilized and communicated to the contracting officer and the contractor.

**Attribute Sampling**

The other form of sampling used by DCAA is attribute sampling. In attribute sampling, the selected sampling units are measured or evaluated in terms of whether they have the attribute of interest, and some statistic is computed from these measurements to estimate the proportion of the population that has the attribute. Attribute sampling can be classified into two approaches: estimation sampling and acceptance sampling. With acceptance sampling, the goal is either to accept or reject the universe. With estimation sampling, the goal is to estimate the actual error rate in the universe. DCAA typically uses attribution sampling when evaluating a contractor's internal controls, including the evaluation of contractor policies, procedures and practices.

Although contractors may not be as familiar with this form of sampling, they need to be prepared. Anecdotal evidence suggests that DCAA is increasing its use of attribute sampling in connection with business system audits to challenge contractor controls and to recommend significant withholds to “protect the taxpayer.” Contractors can therefore expect to encounter this method more frequently in the future. The DCAM describes attribute sampling, in relevant part, as follows:

Attribute sampling is performed when there are only two possible outcomes from the evaluation of a sample item: the sampled item either is or is not in compliance with the control [e.g., law, regulation or internal control] being tested. An audit can be built around questions answerable by either “yes” or “no,” a feature that distinguishes sampling from attributes from sampling for variables.

As explained further, “[s]ince perfection is seldom expected, there is some level of noncompliance that can be tolerated. Attribute acceptance sampling is designed to discern whether noncompliance is within tolerable limits.” The tolerable level of noncompliance, or critical error rate, is required to be specified in advance and to be documented as part of the sampling plan.

For example, an auditor may use attribute sampling to evaluate the contractor's internal controls related to its business ethics and compliance program. In several recent audits of this type of which we are aware, the auditor...
selected a sample of training records to determine whether employees received the required annual training.

In one instance, relying on a sample, an auditor found that a small number of employees on the contractor's master list were not included on the company's training rosters as having completed the training. The auditor treated the missing names as attribute exceptions—i.e., failures—and determined that the missing names exceeded the acceptable threshold, resulting in a finding that the contractor's accounting system contained a significant deficiency.

However, in each case the contractors followed up on the auditor results, which revealed that the employees were either on short-term family leave or temporary duty away from their office, and they completed the training immediately after returning to the office. Yet, based on the attributes established by the auditor, DCAA did not consider these exceptions to be reasonable, and recommended that the contractors' systems be classified as unacceptable.

Contractors may also be caught off-guard when the documents they are accustomed to providing to DCAA to support cost allowability do not sufficiently address the specific attributes (controls) that DCAA is attempting to verify. For example, contractors are accustomed to providing copies of receipts or invoices to auditors to support costs incurred. However, we have been involved in a number of audits where the auditor requested documentation to support selected transactions, but, after the fieldwork was completed and DCAA had issued its audit report, the contractor learned that the auditor was looking for non-financial attributes, such as documentation to demonstrate that appropriate approvals were obtained prior to placing a purchase order.

Because the contractor staff was not aware of the specific attributes the auditor was evaluating, the contractor's documentation was sufficient to demonstrate that the costs were incurred, but insufficient to show what approvals had been obtained. As a result, the auditor did not find evidence of the attribute he was looking for—e.g., evidence of approvals—and the failure was highlighted in the DCAA business system audit report as a significant deficiency.

**DCAA Sampling Plan and Audit Report Requirements**

As noted above, DCAM chapter 4 and appendix B, supplemented by additional audit guidance memoranda, provides guidance for planning, performing and evaluating audit samples. While it may seem obvious, auditors are reminded first and foremost of the importance of “having an understanding of the control or account being tested” when selecting the items to be tested and determining the scope of the examination. Thus, the DCAM advises that it may be necessary for the auditor to conduct some preliminary nonstatistical analyses to ensure that the auditor understands the transactions or process flow, controls applied, and the types of supporting documentation available.

With this understanding in hand, the auditor may begin to develop the sampling plan. Consistent with the notion of “garbage in, garbage out,” the DCAM requires a written, “well-documented” sampling plan for both attribute and variable sampling. The sampling plan should be developed to provide “maximum support for conclusions in return for the time spent in the selection, examination, and evaluation of the sample,” and must be “documented in the audit working papers in sufficient detail to meet the requirements of [generally accepted Government auditing standards (GAGAS)] Attestation Standards.”

Pursuant to DCAM 4-602.9, the sampling plan must:
• **Identify audit and sampling objectives.** The auditor should definitely set forth the characteristics and values to be examined, and the precise types of errors, occurrences or values being audited must be defined. The objective should define the specific audit procedures that will be applied. Therefore, the auditor must have sufficient knowledge or understanding of the audit area to be evaluated.

• **Describe the audit universe, sampling universe and sampling unit.** Because the sampling universe is a subset of all the items that could potentially be examined (the audit universe), auditors are instructed to determine, before sampling, the completeness of the universe, and ensure that the working papers include evidence of reconciliation among the audit universe, sampling universe and selected items for examination.

• **Describe the sampling frame.** The sampling frame is the physical or electronic representation of the sampling units from which the sample is actually selected, such as the electronic file of the contractor's general ledger containing the transactions for all accounts. The auditor should reconcile the universe, sampling frame and sampling universe, and document any required adjustments in the working papers.

• **State the sampling technique to be applied.** The auditor must state whether statistical or nonstatistical techniques will be applied, and identify the specific procedures. If variable sampling will be used, the auditor is required to select either physical-unit or dollar-unit sampling. If attribute sampling will be used, the auditor shall identify whether it is being used for acceptance or estimation.

• **For attribute sampling, establish the desired sampling reliability parameters.** The auditor must identify the minimum acceptable level at which the auditor is willing to express an opinion. For estimation sampling, the sampling reliability parameters are the desired precision range and the desired confidence level. For acceptance sampling, the parameters include the critical error rate, Government risk, false-alarm error rate and false-alarm risk.

• **Determine a sample size consistent with the audit objective and identified audit risk.** The DCAM includes a sample-size table based on a 90-percent confidence level that is required to be used to select the sample size, considering the auditor's assessment and determination of the level of tolerable misstatement and the expected error rate or variability in cost-questioned ratios to be used for projections. Supplemental audit guidance issued in May 2012 “clarified” that the table assessments should be based on the sampling universe rather than on the total audit population, and that all sample sizes in the table are based on a 90-percent confidence level.\(^\text{45}\) The use of a confidence level below 80 percent is not recommended if the sampling test is the sole basis for supporting an audit position.\(^\text{46}\)

• **Describe the sample selection method.** The sample plan must document how the sample items were selected, e.g., random selection, and be sufficiently detailed for the process to be duplicated. This description must include the process for stratification, if used.

• **Describe how the sample results will be evaluated.** The plan should identify by name the specific software application used, such as DCAA's E-Z Quant application, or other manual method applied to evaluate the results.
With respect to the auditor’s evaluation and determination on whether the sample result is acceptable to project to the sampling universe, the DCAM requires auditors to “thoroughly document” in the working papers “all rationale used” in making that determination. Additionally, the audit report must disclose whether the auditor used nonstatistical or statistical sampling as the basis of the audit conclusions, and the “details concerning the sample universe, the sampling method and the sampling unit.” The report must also disclose whether the results were projected, and, if so, identify the confidence level and confidence interval boundary amounts. If the reports were not projected, the audit report should explain why.

**DCAA Guidance Underscores the Complexities of Statistical Analysis**

Notably, in December 2012, DCAA issued an audit alert to “emphasize the importance of supervisory involvement in the design of sampling and judgmental selection plans” prior to testing. The alert cautions auditors that “supervisory guidance plays an essential role in assisting the auditor in designing the sampling,” and that a sampling application may not “produce a statistically defendable audit position” if the plan is not well-designed. It highlights the “complexities” involved, and underscores the need for “careful planning and preparation,” including the importance of:

- obtaining and documenting the auditor’s understanding of the audit and sampling objectives, audit universe (including size, value and homogeneity of transactions), sampling unit, sampling universe, sampling frame and the appropriate technique;
- an appropriate sampling approach (e.g., dollar or physical unit for variable sampling) and reliability parameters; and
- having a good understanding of the control or account when selecting the items to be tested.

In addition to urging coordination with supervisors, the alert suggests that auditors also consider the involvement of quality and technical specialists before embarking on a statistical journey. Given the acknowledged “complexities” associated with the use and interpretation of statistics, and the importance of getting it right, contractors should be alert to auditors who may not have sufficient statistical experience or expertise to design and execute a reliable sampling plan, and should not hesitate to elevate any concerns within DCAA.

**How to Mitigate Audit Sampling Risks**

Statistics provide a powerful tool for auditors to use and, if properly used, can allow for a more efficient and effective audit. Unfortunately, it is also very easy to misinterpret the results, and although the results may be wrong or used in an inappropriate manner, they carry the impression of validity because of the “science” behind them. For this reason, it is important that steps be taken to mitigate the risks that the results of the audit are not valid or are misinterpreted.

**Communicate—Audit Plan**

As the old saying goes, “Measure twice, cut once.” This certainly applies to the planning of a statistical sample. The DCAM implies the coordination of its audit planning with contractor officials through the incorporation of GA-GAS requirements for communication during the audit planning process. This is especially true when the auditor is planning to use statistical methods that require an understanding of the control or account to be tested.

In fact, until July 2009 the DCAM expressly recommended that auditors discuss proposed statistical sampling methods with the appropriate contractor personnel to establish a mutual understanding of the methods to be used. Al-
though this recommendation was removed, it is nonetheless important for DCAA and the contractor to have a mutual understanding of the sampling plan, including the following:

- **Accounts to be tested:** “The sampling universe should consist of costs that are essentially alike or homogenous.” Contractors should consider the issues identified in the DCAM and discuss any concerns regarding the homogeneity of the sample universe, including whether certain accounts should be combined instead of tested separately. For example, an auditor may sample each of the contractor’s five overhead travel accounts separately, rather than combine them into a single sample universe. By evaluating them separately, DCAA will potentially request supporting documents for 500 transactions rather than 100, thus defeating the time-saving and efficiency goals of sampling.

- **Risk assessment:** It is a good idea to discuss with the auditor her assessment of the risk associated with the audit or a specific account to be tested. It is often the case that an auditor assesses risk as high, resulting in a larger sample size. Discuss with the auditor the basis of her assessment and, if possible, provide her with information (for example, previous audit results) that would support a lower risk determination.

- **Appropriate audit support:** Discuss the auditor’s expectations prior to locating and providing supporting documentation. DCAA representatives have continued to underscore in meetings with industry that effective communication remains one of the biggest challenges facing the audit community. Indeed, DCAA has continued to reiterate the importance of dialogue between the contractor and auditors to help avoid significant audit challenges. Effective communication is critical when statistical sampling is used. This is particularly true with attribute sample, since the contractor is expected to provide sufficient documentation to verify that the control (attribute) is working. Contractors should also discuss with the auditor how various supporting files are organized, whether they contain enough detail and if additional information may be needed.

**Communicate—During the Audit**

In all cases, DCAA auditors are instructed to discuss matters as necessary to obtain a full understanding of the basis for each item and disclose any omissions or other mistakes noted. Unfortunately, because of possible concerns regarding audit independence or a rush to complete an audit, this often does not happen during the course of the audit, and issues only surface at exit conferences, or worse yet, after the contractor receives draft or final audit results. Misunderstandings have a greater impact when statistical sampling is used because the result is not the amount of a specific questioned cost, for example, but is projected to the universe. In cases in which a penalty may be alleged, a further doubling occurs.

For these reasons, it is critical that contractors and auditors communicate frequently throughout the audit process. Contractors should proactively ensure that auditors receive the information they need, ask auditors if they have any questions or concerns regarding any of the information they have received, and schedule regular meetings to discuss the status of the audit.

In addition, contractors should be aware of the information that is being provided to the auditors and be alert for anything that has the potential to be misinterpreted or that, without explanation, could raise concerns. When supporting a statistical sample, contractors should also be alert for items that reflect an unusual circumstance (for example, an emergency overseas flight where most travel is domestic) and do not accurately represent the “homogeneous”
universe, and thus should not be projected. Finally, contractors should document what is provided to DCAA, discussions and meetings that occur, and any conclusions that are reached as a result. These documents may be crucial should any issues or disputes arise.

Communicate—Exit Conference

Hopefully because of the steps previously taken, there will be no surprises at the exit conference. It is important that contractors understand the issues reflected in the audit findings, and review the information provided during the audit and the effect this information may have had on the results. When statistical sampling is used, contractors should inquire about the confidence levels used and confidence interval boundary amounts, which are required to be provided in the audit report. Additionally, given the acknowledged “complexities” involved in conducting statistical analysis, contractors should consider requesting a copy of the audit work papers used to support the audit findings.

While the need for effective, two-way communication may seem obvious in any audit, especially in dealing with the complexities of statistical sampling, this has not been easy for contractors to achieve. An unintended consequence of issues raised by the Government Accountability Office regarding DCAA’s independence has been an apparent reluctance by some DCAA auditors to communicate with contractor personnel.

DCAA management has acknowledged this concern and is working to improve communications between auditors and contractors. For example, DCAA’s audit guidance on communications (“The Rules of Engagement”) states that,

[effective communication with the contracting officer and contractor throughout the audit process is an essential part of performing a Generally Accepted Government Auditing Standards (GAGAS) compliant audit while meeting the requestor’s needs. For example, auditors must communicate with the contractor to gain a full understanding of the contractor’s submission or other areas subject to audit.]

Although DCAA management is working on improving communications, it is critical that contractors actively manage this process to mitigate audit risks.

Conclusion

With DCAA’s increased workload and extensive audit backlog, the use of statistical sampling may seem desirable to both contractors and auditors as a means to conduct more efficient and effective audits. However, as even DCAA has acknowledged, the use of statistical sampling is complex and should not be undertaken by those who do not have the requisite skills or expertise. Contractors should therefore pay careful attention to DCAA’s use of statistical samples, and take steps to ensure that the sampling plans make sense and that the results are being interpreted appropriately.

ENDNOTES:


3 Id. at 19.


8 See DCAM 6-414.h (March 27, 2013) (describing an eight-step process used to deter-
mine compensation reasonableness based on surveys of compensation data for purportedly comparable companies, industries and positions as those being evaluated). This methodology is the same as the one at issue in J.F. Taylor, see Owen-Wiest and O’Keeffe, “ ‘Handle With Care’—ASBCA Finds Unreasonable DCAA’s Misuse Of Statistics In Evaluating Reasonableness Of Executive Compensation,” 7 CP&A Rep. ¶ 15; and (as of the date of this writing) is the same process DCAA continues to use today.

9See DCAM 6-414.h (March 27, 2013).

10See J.F. Taylor, Inc., 12-1 BCA ¶ 34920, at 171,704 and 171,717 (noting, in findings of fact ¶¶ 34, 113, the DCAA witness’ testimony that DCAA does not perform any statistical analysis of the survey data because “[t]he survey houses have already done the detailed statistical analysis” and that “he has never encountered the use of statistical analysis, other than that done by the surveys, in the performance of compensation reviews”); see also id., Appeals of J.F. Taylor, Inc., A.S.B.C.A. No. 56105, 12-2 B.C.A. (CCH) ¶ 35125, 2012 WL 3645363 (Arm. Serv. B.C.A. 2012) (finding on the Government’s request for reconsideration that “[t]he extent of the [Government’s] rebuttal of the nuts and bolts of the statistical arguments was that the survey houses have already done the detailed statistical analysis. That was and is insufficient to overcome the conclusion based upon the evidence, that the DCAA methodology was statistically flawed.”).


12Id. at 171,710–11 (¶ 82).

13See Owen-Wiest and O’Keeffe, supra note 8.


15See id. at 171,719 (finding that J.F. Taylor met its burden of showing that its executive compensation costs were reasonable, except for $3,112 in 2002, $7,302 in 2004, and $32,023 in 2005). J.F. Taylor also argued that its compensation costs were reasonable based on other, nonstatistical and qualitative factors. However, because the ASBCA found that J.F. Taylor carried its burden of proof based on its statistical arguments, the ASBCA declined to address those other arguments “except to note that [it] agreed with the DCAA version of revenue attribution (finding 93”). Id.

16DCAM 6-414.3(h)(6) (March 27, 2013).

17FAR 31.205-46.

18DODIG-2013-044, supra note 5, at i.

19Id.

20Id. at 38.

21Id. at 39–40.


24DCAM app. B, B-502.b (Feb. 21, 2013) (noting that an “important objective of variable sampling is to estimate a particular universe characteristic such as total unallowable costs (or questioned cost).”)

25DCAM app. B-500, B-502 (Feb. 21, 2013); see also DCAM 4-602.8 (March 1, 2013).

26See DCAM app. B-507 (Feb. 21, 2013); DCAM 4-602.8.b (March 1, 2013).

27DCAM 4-602.3(c) (March 1, 2013).

28DCAM 4-602.8(b) (March 1, 2013).

29DCAM app. B-504 (Feb. 21, 2013).

30Id.

31DCAA MRD 93-PAD-235(R), Guidance on the Recommendation of Penalties Based on the Results of a Statistical Sampling Review (Nov. 29, 1993).

32FAR 31.201-2(d).

33DCAM 4-602.4(b) (March 1, 2013).

34GAO/PEMD-10.1.6, supra note 2, at 225.


36Id.
Undoubtedly, in these determinations there decide which will be funded and which will not.

Gregory R. Hallmark and Peter A. McDonald, an attorney-C.P.A., is a in their Government Contracts Group in McLean, Va. Peter A. McDonald, an attorney-C.P.A., is a in their Government Contracts Group in McLean, Va.

With widespread budget cutbacks, agencies have been involuntarily terminated.

Definition of Severance Pay

FAR 31.205-6(g) defines severance pay as a payment made to an employee whose employment is being involuntarily terminated.

The primary legal authority for the allowability of severance costs.

Depending on the circumstances, many terminations made for voluntary terminations are not allowable. In some cases, firms seeking to effect a reduction in force will take measures to entice employees to "volunteer" to leave. One such inducement may be a special termination benefits pursuant to a severance arrangements.

Employees who "volunteer" to accept such special severance pay, i.e., an amount greater than what would be provided under the company's regular policy. This article addresses the allowability of severance payments is the cost principal.

When programs end, contractors are often forced to let go the affected employees. For the most inexpensive route of escape. On the other hand, if the agency is not permitted to breach the contract, contractors will generally look for the most inexpensive route of escape and without, contracting officers will generally look for the most inexpensive route of escape.

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