

# **DCAA Executive Audit Guidelines**

## **★ Updates for 2020 ★**

The first step in our improved process is to document a clear understanding of the contractor's internal controls over setting compensation, pay grades and salary bands, when applicable as well as how a contractor analyzes compensation reasonableness, and makes annual and/or inflation adjustments to established salary bands/compensation levels.

Therefore, in order for us to proceed with reviewing the reasonableness of executive compensation as requested, we require the following information/documentation:

### **COMPENSATION ELEMENTS:**

- Detailed job descriptions for executive positions that reflect responsibilities.
- Detailed explanation of how base salaries were determined for. If surveys were not used, please explain the process used to set base salaries.
- If surveys were used, provide the following: names and dates of the surveys, survey position matches, revenue level, industry, locality adjustments, percentiles, etc. used to select survey matches / amounts (base salary and total cash compensation amounts if different) for each of the positions. If possible, please provide the survey excerpts used for the executives.
- If surveys were used, how did you or did you weight the contribution of each salary in your analysis?
- If surveys were used, to what date did you escalate survey data to (e.g. beg of year, end of year, midpoint) and why?
- If you've established pay grades and/or salary bands, provide a detailed explanation of how they were determined and how often the ranges are reassessed for reasonableness?
- What criteria do you consider when you reassess the salary range within a pay band/grade?
- What was the basis for the bonus amounts? Is there a written bonus plan and were the plans provided to and/or discussed with the employees at the beginning of each year?
- Provide the qualitative and quantitative aspects of the bonus plan for the executives in the above and documentation that those employees met those criteria.
- What bonus amounts are included in total compensation?
- When were the earned bonuses paid?
- Please confirm the primary NAICS code. We will use this industry code when evaluating compensation.

### **COMPENSATION MANAGEMENT PHILOSOPHY:**

- Who is responsible for compensation and what are the divided areas of responsibility? We would like to coordinate and communicate directly with those individuals.
- What is the Company's compensation philosophy? What is the basis for the compensation philosophy and what are the risks to setting executive compensation?
- Does the Company describe / classify who is an executive and is it documented in a policy?
- Does the Company have written policies and procedures on how to set compensation at the executive level? If so, please provide.
- How does The Company determine if there is internal or external equity / inequity in an executive's compensation package? How are inequities addressed? Provide an example where an inequity has been corrected.
- How is the Executive Compensation process monitored for effectiveness over time?

### **FINANCIAL PERFORMANCE:**

- What companies does the Company consider its peers within its industry?
- Does the Company perform a peer group financial performance comparison using financial ratios to determine how well it is performing compared to its peers?
- Does the Company use any other external metrics for determining performance compared to its peers?