

**Master Document – Audit Program**

<b>Activity Code 17200</b>	<b>Claim Audit, Other</b>
<b>Version 4.7, dated November 2012</b>	
<b>B-1</b>	<b>Planning Considerations</b>
<b>Purpose</b>	
<p>The primary purpose of this audit is to evaluate the quantum (amount of the monetary adjustment) aspect of an equitable adjustment proposal or claim submitted under the disputes clause (FAR 52.233-1), the changes clause (FAR 52.243), or other basis and provide information regarding the acceptability of proposed or claimed costs and the reliability of contractor data furnished in support of the proposal or claim. The evaluation should focus on determining the reasonableness, allocability, and allowability of amounts submitted by the contractor related to proposed or claimed increased/decreased costs due to the events giving rise to the adjustment.</p>	
<p><b>Note:</b> This is not an audit package for a delay or disruption proposal or claim, which represents a unique type of equitable price adjustment. Delay or disruption proposals or claims are requests to recoup costs as a result of Government caused suspension, delay or interruption of all or part of the work of a contract. Audits of delay or disruption proposals or claims should be performed using the DELAY-DISRUPTION selection from the Sub-activity Screen in the Audit System.</p>	
<p>This standard audit program was prepared to provide specific procedures to facilitate the proper planning, performance, and reporting on the review of a contractor's equitable adjustment proposal or claim. The audit steps in the program should reflect a documented understanding between the auditor and supervisor as to the scope required to comply in an efficient and effective manner with generally accepted government auditing standards and DCAA objectives. The program steps are intended as general guidance and should be modified as appropriate in the circumstances.</p>	
<b>Scope</b>	
<p>Audit scope will generally depend on individual circumstances. In general, the audit should evaluate compliance with applicable acquisition regulations, CAS, and contract terms, as appropriate. Related audits, systems surveys, contractor internal controls and internal reviews should be considered when selecting specific audit steps and the extent of transaction testing to be performed. Once the pre-audit analysis is performed, a transaction testing program should be written based on the analysis. Specific audit tests should be used based on the specific circumstances.</p>	
<p>The auditor should include audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, abuse, or illegal acts that are material (CAM 4-702). Refer to Listing for Fraud Indicators.</p>	

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<b>Other Planning Considerations</b>
<p>1. An equitable adjustment proposal or claim has two elements: entitlement and quantum. Entitlement (whether the contractor has been impaired by Government action and, therefore, has a right to a monetary adjustment) is a legal issue. While the audit focus is on the evaluation of the quantum, the auditor may also identify or develop information bearing on entitlement. Any meaningful observations, such as indications that the contractor was aware of site conditions or other causes prior to the original bid, should be incorporated into the audit when quantum is impacted, and conveyed to the contracting officer in the report.</p>
<p>2. Review the audit request to determine the objectives of the audit, noting any specific information requested. Coordinate with the requester to gain an understanding of the nature of the proposal or claim. Determine whether there are any specific concerns or additional information that was not included in the request. Prepare any audit steps necessary to satisfy specific requirements of the request.</p>
<p>3. Review guidance in CAM 12-504 to determine whether the request for equitable adjustment is a claim under the disputes clause of the contract. If the request is a claim, the Contract Disputes Act requires that interest accrues to the contractor on the settled amount from the date that the contracting officer receives a valid claim. In addition, the contracting officer is limited to only 60 days or a specified future date from the date a valid claim is received to render a decision on disputed matter. Accordingly, it is critical to provide timely audits of data supporting the claim. Refer to the Screening Checklist for further guidance.</p>
<p>4. If the claim has been appealed to a board of contract appeals or U. S. Court of Federal Claims (See FAR 33.211), a Government trial attorney may request an initial audit of a claim or an “update” to an audit completed prior to the appeal. Refer to CAM 1-407 for guidance on the relationship with Government legal counsel in contract disputes matters and CAM 15-500, Procedures for Actual or Potential Contract Disputes Cases.</p>
<p>5. When the contractor appeals a contracting officer’s final decision to a board of contract appeals or the U. S. Court of Federal Claims, coordinate all actions with the assigned trial attorney/DOJ attorney. If the appeal has been assigned to a DOJ attorney, do not accept audit requests regarding the claim from anyone without first discussing the matter with the DOJ attorney.</p>
<b>References</b>
<p>The following references should be reviewed prior to starting the audit:</p>
<p>1. CAM 12-500, Equitable Price Adjustment Proposals or Claims -- Overview</p>
<p>2. CAM 12-600, Equitable Price Adjustment Proposals or Claims -- General Audit Guidance</p>
<p>3. CAM 12-700, Auditing Submissions Under the Changes Clause</p>
<p>4. CAM 10-1100, Audit Reports on Equitable Adjustment Proposals or Claims</p>

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5. CAM 4-700, Responsibilities for Prevention, Detection and Reporting of Suspected Irregularities
6. CAM 4-800, Special Reporting of Unsatisfactory Conditions
7. FAR 31.201-2(d), Determining Allowability
8. FAR 33, Protests, Disputes, and Appeals
9. FAR 52.233, Protests, Disputes, and Appeals clauses, as applicable
10. FAR 43, Contract Modifications
11. FAR 52.243, Contract clauses as applicable
12. For construction contracts, FAR 31.105, Construction and Architect-Engineer Contracts
13. For construction contracts, DFARS 252.236-7000, Modification of Proposals – Price Breakdown
14. DFARS 252.243-7002, Requests for Equitable Adjustment
15. CAM Appendix D, "Technical Specialist Assistance"

<b>B-1</b>	<b>Preliminary Steps</b>	
	<b>Version 4.7, dated November 2012</b>	<b>W/P Reference</b>
	1. Review the open MRD’s for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for “MRDs, AGMs, & AMGMs”	
	2. Review the contractor's proposal or claim to determine if it is adequate to be audited (See the Screening Checklist). If it is determined that the proposal or claim is inadequate for audit, coordinate with the contracting officer/trial attorney to return the proposal or claim to the contractor for supplementation prior to initiating the audit (See Part X of the Screening Checklist (W/P B-4)). If not already provided electronically, request the contractor to submit its proposal and supporting data in electronic media, (e.g., CD-ROM, on-line access). The data should be in an acceptable format for processing on DCAA computers (e.g., Microsoft Office products).	

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<p>3. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team’s understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See “Principal Sources of Fraud Indicators” below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> <li>• Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: <a href="http://www.dodig.mil/PUBS/igdh7600.doc">http://www.dodig.mil/PUBS/igdh7600.doc</a>.</li> <li>• CAM Figure 4-7-3.</li> </ul> <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
<p>4. Review the proposal or claim to determine if significant subcontract costs exist. Request assist audits, as necessary.</p>	

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<p>5. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.</p>	
<p>6. Coordinate with the requester as soon as possible after receiving the audit request regarding the availability of technical assistance. If the proposal or claim includes costs for loss of efficiency or learning, determine if a technical evaluation is needed to ascertain the reasonableness of the factors used. Technical assistance may be required to determine the cost realism of the bid or negotiated cost elements. (Refer to step 13. below.) Technical assistance may also be required for issues such as the use of total cost or modified total cost method (Refer to step 19. below). An example technical specialist request letter is available at Add\Library Access\Other Audit Guidance\TechSpecDoc.</p>	
<p>7. Coordinate with the requester on the following areas, as necessary, as soon as possible after receipt of audit request:</p>	
<p>a. Determine if the contracting officer has prepared a “Chronology of Significant Events.” If a list was not provided with the request for audit, request the contracting officer to provide the list as required by FAR 43.204(b)(5). If one is not available, prepare a “Chronology of Significant Events.”</p>	
<p>b. Proposal or Claim. Review CAM 12-504 and the submission to differentiate between an REA proposal or a CDA claim, and if it is a routine or non-routine demand for payment. Before proceeding with the audit, contact the CO for a determination whether the submission is a proposal or claim. Refer to Screening Checklist, Steps C1 and C2. This determination is necessary before performing the Review of Claim Preparation Costs.</p>	
<p>c. Scope Restriction. If the request contains a scope restriction or proposes to limit the audit to particular areas, the auditor should ascertain the reasons. If compliance with the restriction or limitation would substantially diminish the value of the audit, the auditor should advise the requester and the trial attorney, if any, and propose additional areas for review.</p>	
<p>d. Time Limit. If a time limit is determined to be inadequate to complete the audit (especially a major proposal or claim, sensitive review, or proposal or claim with potential for significant audit</p>	

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<p>findings), request a time extension detailing the areas where work will not be completed because of the time restriction. If the extension is not granted, issue a report to the requester within the stated time period. The report should state the reasons for the denial of the time extension. In addition, coordinate with the requester to determine whether continued audit effort beyond the set due date would be beneficial. If the requester desires continued audit effort, the audit report should also state that the audit effort is continuing and that a supplemental report will be issued.</p>	
<p>8. Discuss the background of the proposal/dispute with the CO (and trial attorney/DOJ attorney, if appropriate). Obtain an understanding of the Government’s position on the alleged changed condition. Document any differences between the contractor and the Government. Differences concerning alleged inaccuracies in technical specifications or additional requirements may have a significant effect on labor, materials, and other proposed or claimed costs.</p>	
<p>9. Electronically transmit an acknowledgement/notification to the ACO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
<p>10. Prepare any audit steps necessary to satisfy specific requirements of the request for audit.</p>	
<p>11. Review the CO’s contract files for pertinent documents, such as relevant change orders, detailed field reports, and job process reports.</p>	
<p>a. Review all prior and current contract price adjustments for duplication of cost in the instant price adjustment.</p>	
<p>b. Review all contract modifications (FAR 53.301-30, Standard Form (SF) 30, Amendment of Solicitation/Modification of Contract) for release/waiver clauses related to the specific change order or previously compensated change order proposals. The CO may have issued a supplemental agreement whereby the contractor released the Government from any and all liability under the contract for further equitable adjustments relating to the same facts and circumstances giving rise to the earlier modification. The auditor should provide the requestor with any meaningful observations regarding prior contract-modification waivers. Whether or not prior contract modifications relating to the same facts and circumstances contain a contractor’s waiver, questions any costs in the current claim that appear duplicative of costs reimbursed under prior contract modifications. (See FAR 43.204 and CAM 12-604).</p>	

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12. Brief the contract for the period of performance, total contract amount, and all pertinent FAR clauses or provisions. Complete a contract brief (found in Other Audit Guidance as “CLM-Contract Brief”).	
13. Determine if there was a formula in the contract for computing the requested price adjustment, or if subsequent modifications to the contract provided a formula or basis for computing adjustments that differ from those of the original contract.	
14. Determine whether an audit of the initial pricing proposal was performed. If an audit was performed, review the proposal and the audit report for any information that may impact the claim.	
15. Arrange an entrance conference with the contractor personnel responsible for preparing the proposal or claim.	
16. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
17. Review the initial pricing or bid data to determine if the contractor may have underbid the original contract (potentially representing “buying-in” on the contract, see FAR 3.501), which would impact the labor, material, or other costs submitted. If no audit was conducted on the initial pricing proposal, request and review the contractor’s supporting data related to the initial pricing proposal or bid for any information that may impact the costs submitted.	
a. Compare the bid or negotiated cost elements and actual cost data, exclusive of that related to the change to determine a possible loss on the contract. Technical assistance may be required to evaluate any significant differences in labor hours or material quantity costs. Proposed or claimed cost elements that were not included in the bid may indicate intentional underbidding.	
b. Question costs unrelated to the change or those underestimated in the bid. Provide comments on the contractor’s profit or loss position in the audit report.	
18. If the claim has been appealed to a board of contract appeals or U. S. Court of Federal Claims, coordinate with the trial attorney on the rules of evidence (contractor records) applicable in the circumstances (see CAM 1.406).	
19. Review FAO files to determine if a DCAAF 2000-0 has been filed that relates to the subject matter of the proposal or claim. If it has, notify the appropriate investigative agency or DOJ attorney of the proposal or claim. Notify the contracting officer of the DCAAF 2000-0.	
20. Review permanent audit files and prior audits to obtain background information and identify potential audit leads to help establish audit scope. Review any prior equitable adjustment audit reports to ascertain the nature and extent of duplicative issues. Consider these in	

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<p>developing detailed steps. Determine if there were any CAS noncompliance issues outstanding during the contract performance period that may have contributed to the increased costs.</p>	
<p>21. Understanding and Evaluating the Contractor’s Internal Control Structure</p>	
<p>a. Review relevant Internal Control Audit Planning Summaries (ICAPS) (or ICQ for nonmajor contractor where ICAPS have not been completed) to obtain and document an understanding of the estimating system and any other applicable internal control systems the contractor may have (e.g. labor, MMAS). Identify any deficiencies that would impact the audit and document their potential impact on each significant cost element.</p>	
<p>b. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion</p>	
<p>When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4a and 10-1204.4.</p>	
<p>22. Make sufficient inquiries to fully understand the contractor's position regarding the nature of the proposal/claim and the extent of alleged Government responsibility. Discuss these issues with the CO (and trial attorney, if appropriate). Differences concerning alleged inaccuracies in technical specifications or additional requirements may have a significant effect on labor, materials, and other submitted costs.</p>	
<p>23. Make inquiries to fully understand the methodology used to develop the price adjustment. Determine if different methodologies were used for different cost elements, or whether the contractor used methodologies that differ from its normal estimating and accounting procedures.</p>	
<p>a. If the contractor used the total cost method or modified total cost method for one or more of the proposal or claim elements, see the Review of Total Cost or Modified Total Cost Method). (CAM 12-704)</p>	
<p>b. Determine if costs incurred related to the changed condition were segregated in the contractor’s records. If costs were not segregated, determine why not. If the contractor's accounting system does not adequately identify and segregate costs by project and contract, has the contractor summarized the incurred costs from pertinent source documents to fully disclose the actual costs applicable to the contract and the proposal or claim?</p>	



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c. Determine the extent that incurred costs related to the changed condition were used in the pricing of the adjustment.	
d. Determine the extent that estimates were used in the pricing of the adjustment. If estimates were used to price the adjustment, to what extent were they based on incurred costs?	
e. Determine whether the proposal/claim includes costs already covered by a termination proposal (CAM 12-103b).	
f. When proposals or claims relate to multiple contract issues, contractors often summarize its proposed or claimed costs by contract issue instead of by cost element. In these cases, perform additional procedures to ensure costs are not overstated. Compare total costs proposed or claimed for each significant cost element to the job cost ledger and/or bid/budget for the cost element. Any significant differences should be discussed with the contractor to solicit its explanation.	
24. Obtain additional supporting data, including budget and actuals for indirect costs; direct costs, including labor hours and costs, material costs, and subcontracts; audited financial statements and tax returns for the entire performance period of the contract.	
25. If external legal or financial consultants prepared the proposal or claim, obtain a copy of their working papers that support the proposal/claim. Costs incurred for proposal or claim preparation should be identified separately from other claimed costs to determine their allowability (See the Review of Claim Preparation Costs).	
26. Review the contractor’s correspondence and contract files for relevant documents. Obtain a list of all outstanding and recently settled claims adjustments on other contracts that relate to the period of performance of the subject contract.	
27. Summarize the results of the risk assessment and preliminary audit steps and clearly identify the planned scope of audit for each cost element.	

<b>C-1</b>	<b>Contractor Claim Submission</b>	
	<b>Version 4.7, dated November 2012</b>	<b>W/P Reference</b>
1.	If the contractor’s proposal or claim support was initially determined to be adequate for audit as a result of applying preliminary audit steps (see W/P section B-1), but is subsequently determined to be inadequate during field work (e.g. referenced supporting documentation is inadequate or unavailable), discuss with the	

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contractor what additional data is needed. Document the results of any discussions in writing. If such data is not reasonably available, follow the procedures in the Screening Checklist, Part X.	
2. Perform mathematical verification of the proposal or claim and supporting data.	
3. Prepare a comparative analysis of the financial data obtained in step 20, W/P section B-1 to assist in evaluating the reasonableness of an assertion that a loss has been sustained.	

<b>D-1</b>	<b>Subcontracts</b>	
<b>Version 4.7, dated November 2012</b>		<b>W/P Reference</b>
Review the prime contractor's subcontract files.		
1. Follow up with cognizant FAOs for subcontractors identified in W/P section B-1, to assure timely issuance of assist reports for incorporation in the audit report. If there will be a delay in the issuance of the assist audit report, coordinate with the CO to determine if the results can be forwarded directly to the CO after issuance of the prime report.		
2. Forward any pertinent data such as lien releases, correspondence and the like to the subcontract auditor. Offer to provide any additional supporting data the assist auditor may require.		
3. Review the prime contractor's correspondence file for legal documents related to subcontractors. A review of the files may disclose that the prime contractor is holding the subcontractor liable for increased costs as a result of changed conditions caused by the subcontractor, or that the subcontractor waived its rights at some point.		
4. Determine if the prime contractor has recorded a liability in the accounting records for the subcontractor's claim. While a failure to do so does not preclude recovery, it is an indicator of the prime contractor's belief in the validity of the subcontractor's claim.		
5. For construction contracts, determine if any of the original subcontractors defaulted. If there were subcontractor defaults, determine if the prime received or will receive payments from the original subcontractor's bonding company (surety). Question any payments from the bonding company that are related to claimed costs.		
Subcontract Audits		
6. Advise the subcontractor that the audit report may be made available to the prime contractor or upper-tier subcontractor and that the audit		

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report will indicate the extent to which the subcontractor agrees to disclosure of the results.	
7. Obtain the subcontractor’s consent for release of the audit report or reason(s) for not authorizing release. If there are restrictions to the release of data to the prime, ask the CO whether the audit should be continued.	
8. Coordinate with the prime auditor on due date and other items of mutual concern.	
9. Brief the contract between the prime and the subcontractor. Determine if an exculpatory clause limits the prime contractor’s liability to the subcontract price. If such a clause is included, determine if the prime contractor’s right to recover damages is limited. A deviations and substitutions clause may limit the liability of the prime for any substitutions or deviations not approved by the Government.	

<b>E-1</b>	<b>CAS And FAR Implications</b>	
	<b>Version 4.7, dated November 2012</b>	<b>W/P Reference</b>
	1. Determine if the contract contains the CAS clause before proceeding with this section. Equitable adjustment proposals or claims commonly arise under fixed-price contracts and frequently under sealed-bid contracts or contracts otherwise exempt from CAS or FAR Part 31.	
	2. Refer to the contractor's Disclosure Statement (if any) in effect during the period including the proposal or claim and results of prior reviews.	
	3. Ascertain that accounting for significant cost elements in the proposal or claim is consistent with established/disclosed practices and comply with FAR Part 31 and the Cost Accounting Standards if applicable.	
	4. Refer to the DMIS and CAS Compliance Testing Reports in the permanent file or planning file. A CAS compliance review should be accomplished, as needed, and documented for applicable standards (see audit packages for such reviews).	
	5. Coordinate with your supervisor for possible audit extension and issuance of separate assignment number for a noncompliance report if positive noncompliance situations are indicated. Materiality should be considered prior to initiating a separate noncompliance report. Refer to CAM 8-302.7.	

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F-1	Labor Costs	
Version 4.7, dated November 2012		W/P Reference
1.	Draft a transaction testing program to determine the cause, reasonableness, allowability and allocability of proposed or claimed labor costs. The focus should be on the isolation of incremental cost increases (reasonable costs that would not have been incurred “but for” the Government action or inaction) for which the contractor can demonstrate a logical causal connection to Government-directed-out-of-scope work or other Government actions. Also consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.	
a.	Rate variance: The difference between the estimated and the actual hourly rate for the skill levels proposed. Determine if an increase in rate arose from escalation due to time-shifting of performance if due to Government action or inaction. The contractor would be responsible if the contractor under-estimated the average labor rate for the time period of performance.	
b.	Substitute variance, mix variances: The costs of using a different skill level or labor mix than originally estimated is ordinarily under the contractor’s control regardless of the Government’s action.	
	(1) Determine if the average rate per hour fluctuates considerably which would indicate a possible substitution variance.	
	(2) Obtain information on skills proposed and skills used to determine the difference between a rate variance and a substitution variance.	
	(3) If the changed conditions appear to have required a different labor mix, request a technical evaluation. For example, defective specifications could require more experienced or skilled labor.	
c.	Efficiency or hours variances: Additional hours may be claimed because of loss of efficiency.	
	(1) Determine the cause of the increased hours. Question increased hours due to contractor inefficiencies or poor management.	
	(2) If an improvement curve is used to support a claimed loss of efficiency or learning, determine if the supporting past performance, industry standards, or other basis are appropriate in the circumstances. Refer to CAM F-500 for further guidance. Technical assistance may be required.	
d.	Other causes of variances: Determine if claimed increased hours	

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are caused by changes in make-or-buy decisions, production methods, and/or labor mix subsequent to the award of the contract. If such changes are not related to the changed condition, determine if the contractor properly accounted for such changes in the claimed increased hours.	
2. Perform the audit steps developed above in the transaction testing program.	

<b>G-1</b>	<b>Material Costs</b>	
	<b>Version 4.7, dated November 2012</b>	<b>W/P Reference</b>
	1. Draft a transaction testing program to determine the cause, reasonableness, allowability and allocability of proposed or claimed material costs. The focus should be on the isolation of incremental cost increases (reasonable costs that would not have been incurred “but for” the Government action or inaction) for which the contractor can demonstrate a logical causal connection to Government-directed-out-of-scope work or other Government actions. Also consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.	
	a. Price variance: The contractor may claim increased costs due to the materials used. Trace price variances to purchase invoices. Determine if any advance agreements protect the contractor from cost growth, which would preclude recovery of implied cost growth.	
	b. Quantity variance: A change in the number of material items used could cause a quantity variance. Review contractor records to determine the cause of the variance such as spoilage, obsolescence, theft, inadequacy of initial estimate or other causes that may or may not be the result of Government actions.	
	c. Determine if credits were applied that related to the sale of scrap material rendered useless by Government-directed design changes.	
	2. Perform the audit steps developed above in the transaction testing program.	

<b>H-1</b>	<b>Indirect Costs</b>	
	<b>Version 4.7, dated November 2012</b>	<b>W/P Reference</b>
	1. Draft a transaction testing program to determine the cause,	

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<p>reasonableness, allowability and allocability of proposed or claimed indirect costs. The focus should be on the isolation of incremental cost increases (reasonable costs that would not have been incurred “but for” the Government action or inaction) for which the contractor can demonstrate a logical causal connection to Government-directed-out-of-scope work or other Government actions. Also consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.</p>	
<p>a. Determine if the contractor’s indirect expense rates were properly calculated and applied.</p>	
<p>b. Determine if the contractor identified and excluded unallowable indirect expenses from the indirect expense pools.</p>	
<p>c. Determine if the contractor demonstrated the causal/beneficial relationship between indirect expenses and the allocation base.</p>	
<p>2. Perform the audit steps developed above in the transaction testing program.</p>	

<b>I-1</b>	<b>Other Direct Costs</b>	
	<b>Version 4.7, dated November 2012</b>	<b>W/P Reference</b>
	<p>1. Draft a transaction testing program to determine the cause, reasonableness, allowability and allocability of proposed or claimed other direct costs. The focus should be on the isolation of incremental cost increases (reasonable costs that would not have been incurred “but for” the Government action or inaction) for which the contractor can demonstrate a logical causal connection to Government-directed-out-of-scope work or other Government actions. Also consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.</p>	
	<p>2. Other direct costs: Determine if the contractor’s claimed other direct costs (e.g. travel costs, overtime premium and equipment charges) are allocable to the contract and were caused by the changed condition.</p>	
	<p>3. Perform the audit steps developed above in the transaction testing program.</p>	

<b>J-1</b>	<b>Claim Preparation Costs</b>	
	<b>Version 4.7, dated November 2012</b>	<b>W/P Reference</b>
	<p>1. For proposal preparation costs, review the supporting documentation.</p>	

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These costs are generally allowable, however, determine if the costs are reasonable and allocable.	
2. Ascertain the contractor's practices for charging proposal preparation costs. Normally proposal preparation costs are not considered direct costs. However, proposal preparation costs may be a direct charge if they are incurred incidental to the performance of the contract and in accordance with the contractor's disclosed practices.	
3. Claim prosecution costs incurred after the submission of a claim to the CO are unallowable even if incurred in support of negotiations (see CAM 12-606). Determine if claimed preparation and support costs are factually related to the submission of the claim. Such costs are unallowable per FAR 31.205-47(f). Review invoices and other documents sufficient to ascertain the nature and scope of the services provided.	

<b>K-1</b>	<b>Construction Contracts</b>	
	<b>Version 4.7, dated November 2012</b>	<b>W/P Reference</b>
	1. Review the job site diary, as important information not available in the accounting records may be available here. Such information may include extent of work performed. Discuss data found in the records with pertinent personnel and review any discrepancies between the records and the proposal or claim.	
	2. If the proposal or claim includes costs of construction equipment, review the submitted costs based on the allowability requirements set forth in FAR 31.105(d)(2).	

<b>L-1</b>	<b>Total Cost Or Modified Total Cost Method</b>	
	<b>Version 4.7, dated November 2012</b>	<b>W/P Reference</b>
	If the contractor computed any element(s) of the proposal or claim using the total cost or modified total cost method, perform the following steps to determine if the contractor meets the criteria for acceptable use of the method. These steps should be performed in addition to any of the foregoing applicable steps. Determine if the contractor's proposal or claim meets the following criteria:	
	1. Impossible to determine actual related increased costs.	
	a. Review the contractor's accounting system to determine the capability and requirements to separately account for increased	

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costs caused by the asserted change(s).	
b. Determine if the contract included the Change Order Accounting Clause (FAR 52.243-6). Determine if the CO issued any directives requiring the contractor to establish separate cost accounts for activities related to changed work and if the contractor complied with the directive.	
c. If the contractor is CAS covered, review the disclosure statement for statements regarding the capability of the accounting system to segregate costs when necessary.	
2. Bid is realistic	
a. Compare the bid with Request for Proposal (RFP) requirements. Determine if any significant elements were omitted from the bid but included in the submitted costs.	
b. Compare the contractor’s bid with other contractors’ bids for the same acquisition, if available from the CO.	
c. Compare the proposed price to recent historical data of similar work. If the bid is significantly less, determine why.	
d. Compare the contractor’s bid delivery schedule with those of unsuccessful bidders. Determine the reasons for significant differences.	
e. Compare bid cost elements to incurred cost elements. Examine those elements where the bid and the incurred costs are significantly different. Determine the reason for the difference.	
f. Review prior audit reports on the contractor’s estimating system for deficiencies that may have impacted the reasonableness of the bid.	
3. Incurred costs were reasonable.	
a. Reconcile the claimed costs to the contractor’s books and records. Determine if the incurred costs were allocable, allowable and reasonable in nature. Question those costs proposed or claimed that were not incurred or would not be incurred.	
b. Obtain technical assistance to determine the cost realism of the estimate to complete if the contract is not yet complete. Obtain technical assistance to determine the cost realism of the estimate to complete if the contract is not yet complete.	
c. Determine if the contractor used estimates based on incurred costs. Any add-on factors to incurred costs or estimated costs should be logical and reasonable in the circumstances.	
d. Evaluate changed methodologies from the bid to the incurred costs. Determine if the contractor changed the labor mix or	



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revised the make-or buy decisions. Determine the impact on submitted increased costs.	
4. Government is clearly responsible.	
a. Review the contract budgets for the period of performance and the contractor’s policies and procedures for comparing actual performance to the budget. Identify and analyze variances the contractor should have identified as work was accomplished. Gather information on contractor caused increased costs and increased costs due to alleged changed work.	
b. Determine if the contractor implemented any accounting changes having impacts that were not considered in the claim.	
c. Determine if the contractor recognized any increased costs attributable to its own mismanagement in scheduling or material procurement.	
d. Review correspondence between the prime contractor and the subcontractor(s) for indications of subcontractor failure to perform according to schedule or other issues that would cause increased subcontract costs.	
e. Determine if there were extraordinary equipment repairs or delayed material ordering or deliveries that were charged to the contract and not the responsibility of the Government.	
f. Review increased incurred overhead costs that may have been caused by loss of planned contract awards, contractor-caused delays, or contract terminations that are not the responsibility of the Government.	
g. Determine if there were higher than normal material scrap costs that may indicate contractor caused cost growth.	
h. Determine if the prime contractor proposed or claimed hours that were actually performed by a subcontractor. Determine if the subcontract was a firm fixed price and if there was a change to a cost reimbursement contract. If there was no change, there is no liability to the Government.	
5. Based on the results of performing the previous steps, determine if proposed or claimed costs are acceptable as a basis for negotiation or settlement because they meet the four criteria for applying the total cost method.	
6. Modified Total Cost Method: Perform the relevant steps above. Determine if the adjusted costs were accurate and complete.	

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<b>M-1</b>	<b>Adjustments</b>	
<b>Version 4.7, dated November 2012</b>		<b>W/P Reference</b>
Based on the transaction testing audit steps, determine adjustments to the proposed or claimed costs and prepare an explanation of the basis for each finding for the working papers and the draft report.		

<b>A-1</b>	<b>Concluding Steps</b>	
<b>Version 4.7, dated November 2012</b>		<b>W/P Reference</b>
1. Summarize audit findings on lead schedules. Include narrative comments, which concisely describe the contractor’s basis for proposed or claimed costs, questioned costs and basis of determination.		
2. Review technical reports and translate findings into dollars. Any reservations by the auditor in regard to scope, basis for conclusions, etc., included in the technical reviews should be coordinated with Government technical personnel before incorporation of the technical report into the audit report (CAM 4-1000).		
3. Complete other audit working papers.		
4. Determine if any fraud indicators are present (Listing of Fraud Indicators). Review findings with supervisor. Take actions indicated by CAM 4-700 or 4-800.		
5. Discuss audit findings with supervisor and FAO claims technical specialist (if available).		
6. Arrange and conduct an exit conference with contractor representatives in accordance with procedures specified in CAM 4-300. For claims appealed to the Boards of Contract Appeals, U. S. Court of Federal Claims, or U. S. Court of Appeals for the Federal Circuit, coordinate with the trial attorney/DOJ attorney prior to conducting an exit conference.		
7. Draft audit report using the guidance in CAM 10-1100. Include contractor responses and, where appropriate, the auditor’s rebuttal.		
8. Update permanent file as necessary (including Internal Control Audit Planning Summaries, ICAPS).		
9. Determine the need for issuance of other related reports (e.g., CAS noncompliance report and/or flash internal controls deficiency report).		
10. The supervisory auditor should validate dollars examined and costs questioned in the DMIS Audit Disposition Form to assure compliance		

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with Agency instructions.	
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