

Master Document – Audit Program

Activity Code	Cost Realism
Version No. 1.12, updated February 2013	
B-1	Planning Considerations
Purpose and Scope	
<p>This standard audit program assists the auditor team in planning and performing the audit of price proposals to evaluate the proposal for its compliance with FAR Part 15 and 31, as well as applicable CAS provisions. The program steps should be tailored, as appropriate. For audit areas with multiple sections (i.e. rates), the auditor is permitted to remove the sections that are not relevant to the review based on the documented risk assessment. The audit program should reflect an understanding between the auditors and supervision as to the scope required.</p> <p>This program provides specific procedures for auditing price proposals submitted by contractors in connection with the award, administration, modification, or re-pricing of Government contracts when the contracting officer requests an audit.</p>	
Planning Considerations	
<p>1. Determine whether this pricing action has already been awarded. If this is a subcontract proposal, determine whether the prime contract pricing action has been awarded. When the contract instrument is fixed-price with no downward adjustment clause, the Government derives no benefit from either prime or subcontractor audits performed after negotiation of the prime contract. If the auditor becomes aware that a requested pre-award audit pertains to a fixed-price contract already negotiated by a DoD or non-DoD agency, the auditor should advise the requester that an audit is inappropriate unless a recapture clause has been included in the contract. In those instances in which the contracting officer insists on an audit even though the contract has been awarded on a fixed-price basis and does not contain a recapture clause, the effort should be accomplished as a review for potential defective pricing in accordance with 10 USC 2306(a). If contract award has already been made, STOP WORK NOW and confer with the supervisor.</p>	
<p>2. If this is a Change Order Proposal, the team must evaluate deletions as well as additions, and the computation of dollars audited should add deletions rather than netting them against additions. In reviewing deletions, it is important to verify the following:</p>	
(a) All replaced or deleted elements of the schedule have been identified and priced out.	
(b) All deleted or modified line items are priced at the present estimated value.	
(c) All applicable indirect expense has been considered.	
(d) In general, audit considerations for open CLINs are similar to terminations, while unopened CLINs more closely resemble equitable adjustment claims.	

Master Document – Audit Program

3. Consider CAS Implications. If the potential contract will be CAS covered, consider contractor compliance with the applicable CAS requirements as part of the proposal evaluation.
4. An independent audit review ensures the proposal will provide a basis for the contracting officer to arrive at both a fair and reasonable price, therefore both potential overstatements and understatements in the proposed cost should be considered. The risk of potential overstated cost estimates is greatest in a sole source non-competitive environment. While the risk of potential understated cost estimates is greatest in a competitive environment.
References
1. CAM Chapter 9, Audit of Cost Estimates and Price Proposals
2. Applicable Non-DoD Agency FAR Supplement(s) (CAM 15-102)
3. Cost Accounting Standards (CAS) CAM Chapter 8
4. FAR 15 and 31; DFARS 215 and 231
5. CAM Chapter 10, Sections 2 and 3.
6. CAM Appendix B, Statistical Sampling Techniques
7. CAM Appendix D, Technical Specialist Assistance
8. CAM Appendix E, Graphic and Computational Analysis Techniques

B-1	Preliminary Steps	W/P Reference
Version No. 1.12, updated February 2013		
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 Request for Proposal (RFP): <ul style="list-style-type: none"> a. Identify the type of data required of the contractor (i.e., certified cost or pricing data or data other than certified cost or pricing data). If it is not clear in the RFP, discuss the expectations with the requester and document the criteria (FAR, CAS, Agency Supplement, etc.) against which the proposal will be examined. Section L of the RFP should provide instruction on how to submit proposals and information on a specific format to facilitate evaluation. FAR 15.403-5(b) provides that the contracting officer may require the proposal in the format of Table 15-2 of FAR 15.408, specify an alternative format, or permit submission in the 	

Master Document – Audit Program

<p>contractor’s format.</p> <p>b. Identify and document any special requirements or provisions (i.e., established rates, hours, time-phasing, material quantities, etc).</p>	
<p>3. Verify that the proposal (or part(s) of a proposal being reviewed) was approved by an appropriate level of management. If so, review the proposal package for adequacy based on the criteria established in Step 2. Auditors may use the “Criteria for Adequate Contract Pricing Proposals” checklist (Adequacy.doc) located in Other Audit Guidance (OAG) to assess adequacy (CAM 9-103.1b).</p>	
<p>4. Review the audit request for scope limitations or special requirements. Communicate with the requester as soon as practical.</p>	
<p>a. Confirm your understanding of the expectations and discuss any specific concerns.</p> <p>b. Discuss with the requester sensitivities and inherent risk factors, such as prior audit findings. If the request for audit is for part of a proposal and based on past experience at the contractor, the team’s professional judgment identifies that additional cost areas should be examined, the team should discuss expanded audit coverage and then communicate the recommendation to expand audit coverage to the contracting officer. Conversely, if the team determines a lesser category of audit service will assist the contracting officer, communicate reduced audit coverage. If the contracting officer does not concur, gain an understanding of the reasons and discuss among the team.</p> <p>c. Contact the cognizant FLA for assistance, if needed. If the contracting officer does not agree to the recommendation to expand or reduce the audit request and the team is not convinced by the contracting officer’s reasons, elevate the issue to the Region for coordination with the command’s Director of Contracts or the equivalent position. Proceed with the audit process for the requested services while coordination is proceeding in other channels.</p> <p>d. 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>5. Coordinate with contractor and obtain a walk-through of the proposal to gain an understanding of the basis of each cost element of the proposal, the related supporting documentation, and the relevant policies/procedures and processes related to significant cost elements.</p>	

Master Document – Audit Program

<p>Invite the cognizant procurement and administrative contracting officers. As part of this walk-through, require the contractor to identify:</p> <ul style="list-style-type: none"> a. Significant subcontracts and the status of its cost or pricing analyses. Based on this status, perform an initial assessment to identify and request necessary assist audits (W/P B-3). The final assessment of assist audit requirements will be performed in W/P S. b. Significant interdivisional work and its basis for estimate. Perform an initial assessment to identify and request necessary assist audits (W/P B-3). The final assessment of assist audit requirements will be performed in W/P I. 	
<p>6. Determine the basis of the proposed rates.</p> <ul style="list-style-type: none"> a. If proposed rates are not based on a FPRA/FP RR and have not been audited, perform audit procedures in W/P E-1, N-1, T-1 – <i>No Audited Rates</i> based on the risk assessment as appropriate. b. If proposed rates are not based on a FPRA/FP RR and we have completed an audit of the rates (i.e., government rate position developed based on DCAA audit report), perform audit procedures in W/P E-1, N-1, T-1 – <i>Audited Rates</i>. c. If proposed rates are based on a FPRA/FP RR and we have not completed an audit of the rates that were used as the basis for the FPRA/FP RR, perform audit procedures in W/P E-1, N-1, T-1 – <i>No Audited Rates</i>. d. If proposed rates are based on a FPRA/FP RR and DCAA does not agree with the established rates due to the results of a concurrent or recent examination, the team should discuss and document that the concerns have been elevated appropriately. If the concerns have not been resolved, perform audit procedures in W/P E-1, N-1, T-1 – <i>Audited Rates</i> based on the risk assessment as appropriate. e. If proposed rates are based on a FPRA/FP RR and DCAA has no known concerns with the established rates, perform audit procedures in W/P E-1, N-1, T-1 – <i>Established Rates by FPRA/FP RR</i> based on your risk assessment as appropriate. f. If the proposal includes rates beyond the period covered by audited rates, perform audit procedures in W/P E-1, N-1, T-1 – <i>No Audited Rates</i> for the years beyond the audited rates based on the risk assessment as appropriate. 	
<p>7. Assess Materiality. Document the understanding of the proposed basis of each cost element on W/P B for each significant cost element of the proposal. Identify those cost elements that significantly</p>	

Master Document – Audit Program

contribute to the total proposed value.	
8. When ICAPS have not been completed (e.g. non-major contractor) or are not current (e.g. the system has not been audited in the last 4 years or there have been significant changes to the system since the last audit) and if the evidence to be obtained during the audit is dependent on computerized information systems, document on W/P B-2 the audit work performed that supports reliance on the computer-based evidence. Specifically, document or reference one or more of the following in W/P B-2:	
a. The audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
b. The procedures/tests that will be performed in this audit to evaluate the subject matter in this audit that will also support reliance on the evidence, and/or	
c. The tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data	
NOTE – When sufficient work will not be performed to determine reliability, qualify the audit report. (CAM 10-210.4j).	
9. Gain an understanding of the product/service being acquired and related contractor processes to manufacture the product or deliver the service. Identify any significant changes in the contractor’s processes that have taken place and consider the potential impact on the proposal and planned audit procedures.	
10. Assess any cost avoidance recommendation from operations audits to determine if there is a significant impact on the proposal. (CAM 9-308).	
11. Determine whether there are any outstanding FAR or CAS noncompliances affecting the proposal. If there are noncompliances, discuss with the team how they will affect the audit scope and how they are to be presented in the audit report.	
12. 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 proposal. 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 that would present heightened risk for fraud, 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 characteristics and types of	

Master Document – Audit Program

<p>activity associated with illegal expenditures and acts for specific audit areas in CAM figure 4-7-5. 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><i>Principle Sources of Fraud Indicators:</i></p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p> <ul style="list-style-type: none"> • CAM Figure 4-7-5. 	
<p>13. Obtain and document the understanding of the relevant contractor internal controls related to the contractor’s proposal using the framework on W/P B-2 (e.g., estimating, accounting). Auditors should use the walk-through of the contractor’s proposal to the extent possible to obtain this understanding.</p>	
<p>14. Conduct an entrance conference. Confirm the team’s understanding of how the proposal values were calculated and discuss the availability of required data and personnel necessary to timely support the audit. If a subcontract, obtain the subcontractor’s written consent for release of the audit report or reason(s) for not authorizing release. (CAM 10-212.3)</p>	
<p>15. Identify and document the need for technical assistance based on the understanding of the basis of estimate. Considering risk and materiality, prepare a detailed request for technical assistance if required, and document on W/P B-03.</p>	
<p>16. Review and discuss with your supervisor (or if appropriate, the audit team) the overall results of the risk assessment and the audit scope</p>	

Master Document – Audit Program

<p>planned in response, including the detailed audit steps. Make any further adjustments to the audit program steps necessary to obtain sufficient evidence to provide a reasonable basis for the conclusion that will be expressed in the audit report.</p> <p>Obtain and document supervisory approval of the risk assessment and the planned scope of examination for each cost element documented in W/P B and -1 W/Ps.</p>	
17. Prepare and send an acknowledgment memorandum to the requestor.	
18. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	

D-1	Summary of Direct Labor Costs	W/P Reference
Version No. 1.12, updated February 2013		
Summarize audit results of labor rates (W/P E) and labor hours (W/P F and/or G).		
1. Calculate the questioned cost due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base using the audit determined rates not questioned (Questioned Base x Audit Determined Rate).		

E-1	Direct Labor Rates - Established Rates by FPRA_FPRR	W/P Reference
Version No. 1.12, updated February 2013		
1. Trace proposed labor rates to the rates specified in the applicable FPRA/FPRR and verify proper application of the rates.		
2. If the RFP requires the contractor to bid labor categories other than those established, determine if this results in a potential CAS 401 noncompliance.		
3. Determine if any conditions (e.g., expansion of workforce) exist under which the established forward pricing labor rates should be modified (CAM 9-505.7). If conclusions differ from any significant rates in the FPRA/FPRR, the team should discuss the need to coordinate with the administrative contracting officer and the potential need to recommend withdrawing from the FPRA/FPRR. CAM 9-1203		
4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.		

E-1	Direct Labor Rates - Audited Rates	W/P Reference
------------	---	----------------------

Master Document – Audit Program

Version No. 1.12, updated February 2013	
1. If the RFP requires the contractor to bid labor categories other than the rates that were audited, determine if this results in a potential CAS 401 noncompliance.	
2. Determine if any conditions (e.g., expansion of workforce) exist under which the audited forward pricing labor rates should be modified (CAM 9-505.7). If the adjustments to the originally audited rates are significant, the team should discuss the need to supplement the audit report in which we opined on the direct labor rates.	
3. Calculate the questioned rates, if applicable.	
4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

E-1	Direct Labor Rates - No Audited Rates	W/P Reference
Version No. 1.12, updated February 2013		
<i>NOTE – Consider the addition of any appropriate audit steps from the 23000 Rate Review audit program.</i>		
	1. Document your understanding of the basis of the proposed rates.	
	2. Determine if the proposed direct labor rates are classified consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
	3. Evaluate the contractor’s method of developing the proposed rates (see CAM 9-505).	
	4. If historical data is used to support the basis of estimate, perform substantive audit procedures to ensure the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
	5. Evaluate the proposed base labor rates by comparing with other sources of information (e.g., current payroll data, signed employee agreement, appropriate Wage Determination rates, survey with established reliability). If required, contact the FAO/Regional point of contact or Mid-Atlantic Compensation Team for guidance and assistance in determining the reasonableness of the proposed labor rates.	
	6. Evaluate the proposed escalation factors with consideration given to escalation history, management approved plans, forecasted economic conditions, etc.	

Master Document – Audit Program

7. Calculate the questioned rates, if applicable.	
8. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

F-1	Direct Labor Hours	W/P Reference
Version No. 1.12, updated February 2013		
1.	Document your understanding of the basis of the proposed labor hours (see CAM 9-503).	
2.	Refer to CAM D-102 in determining whether to request technical specialist assistance, and if needed, to formulate the questions to be addressed by the technical specialist.	
3.	Evaluate the contractor's method for estimating each significant class of direct labor hours (see CAM 9-502 and D-406):	
a.	Determine the suitability of historical data for making estimates (i.e., accurate, reliable, and representative.) If the contractor did not identify relevant historical labor hours in its basis of estimate, determine if the labor proposed is identical or similar to a completed or in-process contract. If suitable history is discovered, compare the proposed labor hours with the historical hours taking into consideration the effect of cumulative learning/improvement.	
b.	If historical data is used to support the basis of estimate, perform substantive audit procedures to ensure the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
c.	Determine if the proposed direct labor hours are classified consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
d.	Select a representative sample of proposed direct labor hours in the basis of estimate and trace to the underlying data identified by the contractor. Evaluate the reasonableness of the estimate. Perform analytical procedures to determine if the proposed estimating method has yielded reasonably accurate estimates.	
e.	If appropriate, apply QM techniques, such as improvement curves, trend or regression analysis techniques.	
f.	Compare experienced labor mix and hours with proposed labor	

Master Document – Audit Program

mix and hours.	
4. Incorporate results of a technical review, if applicable.	
5. Calculate the questioned hours, if applicable.	
6. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

G-1	Cost Estimates – Based on Standard Costs	W/P Reference
Version No. 1.12, updated February 2013		
1.	Document your understanding of the basis of the proposed standard cost/hours including the frequency at which standards are adjusted and the task level at which variances are accumulated and how they are distributed. (CAM 9-314, 6-411, 8-407)	
2.	Refer to CAM D-102 in determining whether to request technical specialist assistance, and if needed, to formulate the questions to be addressed by the technical specialist.	
3.	Evaluate the contractor’s method for estimating cost based on standards as well as the impact of variances (see CAM Appendix D-407.2h and 8-407.1).	
	a. If variances are relatively significant, assess the risk that standards are set artificially low for some labor tasks, particularly those in which government products or services have little participation (i.e., standards set relatively low for labor tasks predominately used for commercial contracts creating a variance that is shared by all contract types).	
	b. Determine if the proposed direct labor hours are classified consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
	c. Trace a representative sample of proposed standards to the underlying reports and records identified by the contractor (e.g., management-approved published labor standards, routing sheets).	
4.	Incorporate the results of a technical review, if applicable.	
5.	Calculate the questioned hours, if applicable.	
6.	Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

P-1	Cost Estimates - Based on Parametric Cost Estimates	W/P Reference
------------	--	----------------------

Master Document – Audit Program

Version No. 1.12, updated February 2013	
1. Document your understanding of the basis of the proposed cost. (CAM 9-1000)	
2. Obtain and evaluate the analyses on which the contractor concluded that the CER will produce reliable estimates (see CAM 9-1003). If appropriate, apply QM techniques such as trend or regression analysis techniques to evaluate the estimate.	
3. If historical data is used to support the basis of estimate, perform substantive audit procedures to ensure the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
4. Refer to CAM D-102 in determining whether to request technical specialist assistance, and if needed, to formulate the questions to be addressed by the technical specialist.	
5. Incorporate the results of a technical review, if applicable.	
6. Calculate the questioned cost/hours, if applicable.	
7. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

M-1	Direct Material	W/P Reference
Version No. 1.12, updated February 2013		
<i>NOTE – Consider the use of statistical sampling or improvement curve techniques, if appropriate (CAM 9-408).</i>		
1.	Analyze the consolidated bill of material (BOM) that supports the proposal to determine what costs will be covered under the material, subcontract and interdivisional W/P M, S, & I sections respectively (see CAM 9-403).	
2.	Document your understanding of the basis of the prices, kinds, and quantities of material underlying the proposed cost. (CAM 9-400)	
3.	Refer to CAM D-102 in determining whether to request technical specialist assistance, and if needed, to formulate the questions to be addressed by the technical specialist.	
4.	Verify proposed direct materials, including any significant additive factors (e.g., scrap, rework, spoilage), are classified in a manner consistent with established/disclosed practices and no proposed direct cost is also being proposed as an indirect cost (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	

Master Document – Audit Program

<p>5. Evaluate the support (e.g., history, engineering estimate, etc) for any significant additive factors (e.g., scrap, rework, spoilage), if the rates were not already audited in a rates and factors review.</p>	
<p>6. If historical data is used to support the basis of estimate, perform substantive audit procedures to ensure the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.</p>	
<p>7. Trace a representative sample of items of the proposed quantities on the BOM to supporting documents (e.g., RFP, engineering drawings, etc.).</p>	
<p>8. Test a representative sample of proposed unit prices listed on the BOM (see CAM 9-404). Verify that proposed unit prices take into account reasonably anticipated discounts, including quantity and prompt payment discounts. Verify proper handling of minimum buys, potential quote decrements (due to potential negotiated reductions), availability of parts in current inventory (inventory price could be lower), adequate competition, and contractor price analysis.</p>	
<p>9. Review and evaluate significant contractor make-or-buy decision documentation (CAM 9-405).</p>	
<p>10. Identify any significant estimates based on a Long Term Agreement (LTA) and design appropriate evaluation steps (CAM 9-406.3). Consider comparing LTA unit prices to actual unit prices paid during the agreement.</p>	
<p>11. When certified cost or pricing data are required/submitted by the vendor determine if the prime contractor obtained and analyzed certified cost or pricing data in accordance with FAR 15.404-3 and FAR 15.408, Table 15-2, II.A Evaluate the prime contractor's cost/price analysis. If a required cost or price analysis is inadequate or not available, consider historical decrement factors (CAM 9-404.6) and classify the remaining cost as unsupported. In addition, assess the need for assist audits and request accordingly (See CAM 9-104.2).</p>	
<p>12. Evaluate proposed escalation with consideration given to escalation history, management-approved plans, forecasted economic conditions, etc. Also, determine that the escalation is calculated in a manner that properly reflects the expected purchase date of the material.</p>	
<p>13. Incorporate the results of a technical review, if applicable.</p>	
<p>14. Calculate the questioned material costs, if applicable.</p>	
<p>15. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.</p>	

Master Document – Audit Program

N-1	Indirect Rates – Established Rates by FPRA_FPRR	W/P Reference
Version No. 1.12, updated February 2013		
1.	Trace proposed indirect rates to the rates specified in the applicable FPRA/FPRR and verify proper application of the rates.	
2.	If the RFP requires the contractor to use indirect rates other than those established, determine if this results in a potential CAS 401 noncompliance.	
3.	Determine if any conditions (e.g., expansion of business base) exist under which the established forward pricing indirect rates should be modified (CAM 9-1206d). Perform testing to ensure that the subject proposal has been considered in the allocation bases. If conclusions differ from any significant rates in the FPRA/FPRR, the team should discuss the need to coordinate with the administrative contracting officer and the potential need to recommend withdrawing from the FPRA/FPRR.	
4.	Calculate questioned indirect cost by applying the FPRA\FPRR rate(s) to any questioned base costs.	
5.	Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

N-1	Indirect Rates –Audited Rates	W/P Reference
Version No. 1.12, updated February 2013		
1.	If the RFP requires the contractor to use indirect rates other than those that were audited, determine if this results in a potential CAS 401 noncompliance.	
2.	Determine if any conditions (e.g., expansion of business base) exist under which the audited forward pricing indirect rates should be modified (CAM 9-1206d). Perform testing to ensure that the subject proposal has been considered in the DCAA recommended allocation bases. If the adjustments to the originally audited rates are significant, the team should discuss the need to supplement the audit report in which we opined on the indirect rates.	
3.	Calculate the questioned rates and use them to calculate the questioned costs due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base using the rates not questioned (Questioned Base x Audit Determined Rate).	
4.	Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

Master Document – Audit Program

N-1	Indirect Rates – No Audited Rates	W/P Reference
Version No. 1.12, updated February 2013		
<i>NOTE – Consider the addition of any appropriate audit steps from the 23000 Rate Review audit program.</i>		
1.	Document your understanding of the basis of the proposed rates.	
2.	Determine if the proposed indirect rates are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
3.	Verify that the period for the proposed rates coincides with the contractor’s fiscal year or historical rate period (CAS 406/FAR 31.203(g)).	
4.	Determine that the pool expenses and allocation bases reasonably comply with the applicable CAS (e.g., 403, 410, 418, 420).	
5.	For significant indirect pools, compare proposed rates to prior year(s) rates and year-to-date experience and analyze major variances.	
6.	Trace a selection of proposed pool and base amounts to the underlying budgetary data identified by the contractor. Determine the suitability of budgetary data (i.e., current, accurate, reliable, and representative).	
7.	Verify the proposed rates properly reflect anticipated changes to future operations (CAM 9-702.2).	
8.	Review proposed indirect expense accounts by nomenclature to assess the risk that the estimates include unallowable costs per FAR Part 31. Verify that the estimates exclude unallowable expenses and the deletions are reasonably in line with history.	
9.	Review selected significant or high risk expense accounts in the pools to evaluate the reasonableness of specific estimates.	
10.	Evaluate the proposed allocation base amounts to determine whether the contractor is realistic in determining its probability of obtaining additional work including the impact of the subject proposal. Coordinate, as necessary, with the ACO/acquisition offices to verify the probability of obtaining new work and/or any significant changes in existing programs.	
11.	If historical data is used to support the basis of estimate, perform substantive audit procedures to ensure the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	

Master Document – Audit Program

12. Evaluate the reasonableness of the proposed rates using regression analysis when appropriate.	
13. Calculate the questioned rates and use them to calculate the questioned cost due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base amount using the rates not questioned (Questioned Base x Audit Determined Rate).	
14. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

O-1	Other Direct Cost	W/P Reference
Version No. 1.12, updated February 2013		
1.	Document your understanding of the basis of the proposed ODCs (estimated cost and quantity/requirements). CAM 9-600	
2.	Refer to CAM D-102 in determining whether to request technical specialist assistance, and if needed, to formulate the questions to be addressed by the technical specialist.	
3.	Trace a selection of proposed ODC costs and quantity requirements to the underlying data identified by the contractor.	
4.	Determine if the proposed ODCs are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
5.	Evaluate the estimated ODCs to determine the amounts are reasonable and allowable per FAR 31 (CAM 9-600).	
6.	Evaluate significant ODC Requirements, if pertinent historical data is available. CAM 9-605.	
7.	If historical data is used to support the basis of estimate, perform substantive audit procedures to ensure the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
8.	Incorporate the results of a technical review, if applicable.	
9.	Calculate the questioned ODC costs, if applicable.	
10.	Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

S-1	Subcontracts	W/P Reference
Version No. 1.12, updated February 2013		

Master Document – Audit Program

Subcontracts (CAM 9-104 and 9-406)	
1. Verify that the proposed subcontracts were priced in compliance with FAR 15 (i.e., a fair and reasonable price and the best value is obtained).	
2. Identify any proposed subcontract costs based on a Long Term Agreement (LTA) and design appropriate evaluation steps (CAM 9-406.3). Consider comparing LTA unit prices to actual unit prices paid during the agreement.	
3. When certified cost or pricing data are required by the subcontractor determine if the prime contractor obtained and analyzed certified cost or pricing data in accordance with FAR 15.404-3 and FAR 15.408, Table 15-2, II.A. Evaluate the prime contractor’s cost or price analyses of subcontracts. If a required cost or price analysis is inadequate or not available, consider historical negotiation reduction factors (CAM 9-404.6) and classify the remaining cost as unsupported.	
4. For those analyses that are not completed, determine the contractor’s completion schedule. The audit report should identify subcontracts for which the prime contractor has not completed the required analyses (CAM 10-308.2) and the proposed subcontract costs should be reported as unsupported (CAM 9-104.2d).	
5. If the prime contractor has not evaluated the subcontractor proposals or the prime contractor's reviews are not considered adequate, determine whether an assist audit is necessary to support the audit opinion that will be rendered for this assignment. (CAM 9-104.2) The prime auditor should be aware of audits that have been requested by the ACO or PCO and ensure the prime auditor is on distribution if the audit is necessary for this audit. CAM 9-104.2b outlines concerns as to when assist audit support may be required to ensure the overall adequacy of the audit of the prime contract proposal.	
6. Review and evaluate significant contractor make-or-buy decision documentation (CAM 9-405).	
7. Incorporate the results of any assist audits received. As stated above, if the prime contractor has not completed its own cost or price analysis, the balance of the proposed subcontract costs should be reported as unsupported.	
8. Calculate the questioned subcontract costs, if applicable.	
9. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

I-1	Interorganizational Work Orders	W/P Reference
------------	--	----------------------

Master Document – Audit Program

Version No. 1.12, updated February 2013	
Intracompany Work Orders (CAM 9-105)	
1. Determine whether the transfers have been priced based or supported by a separate breakdown of cost elements.	
2. Transfers Based on Price – Ensure that the requirements of FAR 31.205-26(e) are met:	
a. It is the established practice of the transferring organization to price inter-organizational transfers at other than cost;	
b. The item being transferred qualifies for an exception to the certified cost or pricing data requirement outlined in FAR 15.403-1(b)); and	
c. The price is fair and reasonable and the best value is obtained.	
3. Transfers Based on Cost – Ensure that the data required by the FAR 15.408, Table 15-2, are adequately provided. If an audit of the proposed inter-organizational amount requires field pricing support at another segment location, an appropriate request for assist audit services should be issued to the auditors at the inter-organizational location based on the documented risk assessment.	
4. Review and evaluate significant contractor make-or-buy decision documentation (CAM 9-405).	
5. Calculate the questioned Intracompany Work Order costs, if applicable.	
6. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

T-1	Cost Of Money (COM) Rates – Established Rates by FPRA_FPRR	W/P Reference
Version No. 1.12, updated February 2013		
1.	If rates were established without reliance on a DCAA audit, or we do not agree with the FPRA/FPRR, see Step 6 at B-01. Trace proposed COM rates to the rates specified in the applicable FPRA/FPRR and verify proper application of the rates.	
2.	If the RFP requires the contractor to use COM rates other than those established, determine if this results in a potential CAS 401 noncompliance.	
3.	Determine if any conditions (e.g., expansion of business base, change in asset ownership, etc.) exist under which the established forward pricing COM rates should be modified (CAM 9-1206d). Perform	

Master Document – Audit Program

testing to ensure that the subject proposal has been considered in the allocation bases. If conclusions differ from any significant rates in the FPRA/FPRR, the team should discuss the need to coordinate with the administrative contracting officer and the potential need to recommend withdrawing from the FPRA/FPRR.	
4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

T-1	Cost Of Money (COM) Rates – Audited Rates	W/P Reference
Version No. 1.12, updated February 2013		
1.	If the RFP requires the contractor to use COM rates other than those audited, determine if this results in a potential CAS 401 noncompliance.	
2.	Determine if any conditions (e.g., expansion of business base, change in asset ownership, etc.) exist under which the established forward pricing COM rates should be modified (CAM 9-1206d). Perform testing to ensure that the subject proposal has been considered in the DCAA recommended allocation bases. If the adjustments to the originally audited rates are significant, the team should discuss the need to supplement the audit report in which we opined on the COM rates.	
3.	Calculate the questioned rates and use them to calculate the questioned cost due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base using the rates not questioned (Questioned Base x Audit Determined Rate).	
4.	Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

T-1	Cost Of Money (COM) Rates – No Audited Rates	W/P Reference
Version No. 1.12, updated February 2013		
<i>NOTE – Consider the addition of any appropriate audit steps from the 23000 Rate Review audit program.</i>		
1.	Document your understanding of the basis of the proposed rates.	
2.	Determine if the proposed COM rates are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
3.	Verify that the period for the proposed rates coincides with the contractor’s fiscal year or historical rate period (CAS 406/FAR 31.203(g)).	

Master Document – Audit Program

4. For significant COM pools, compare proposed rates to prior year(s) rates and year-to-date experience and analyze major variances.	
5. Trace a representative sample of the pool and base amounts to the underlying reports and records (e.g., budgetary data, Asset Ledger) identified by the contractor.	
6. Verify that the interest rate, net book values, and allocation bases are current and properly applied for the computation of the facilities capital cost of money factors in the CASB-CMF (CAS 414).	
7. Verify that the proposed cost of money factors and bases are consistent with the CASB-CMF submission and that costs are properly classified for arriving at a profit objective via the Weighted Guidelines method (CAM 9-902).	
8. Determine if the COM computations should be revised to reflect any adjustment to bases arising from increased volume and/or pools for any additional assets attributable to award of this proposal.	
9. If historical data is used to support the basis of estimate, perform substantive audit procedures to ensure the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
10. Calculate the questioned rates and use them to calculate the questioned cost due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base using the rates not questioned (Questioned Base x Audit Determined Rate).	
11. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

A-1	Concluding Steps	W/P Reference
Version No. 1.12, updated February 2013		
	1. Summarize and document the audit results. In developing the exhibit of proposed and questioned cost by major cost element for W/P A, auditors are reminded that only the parts of the proposal that were subject to audit and the audit procedure are complete shall be presented in the summary schedules/exhibits.	
	2. Obtain supervisory/management review of the working papers and audit results.	
	3. After management approval, conduct and document an exit conference with contractor representative in accordance with procedures specified in CAM 4-304.	

Master Document – Audit Program

4. Brief the requestor/contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues.	
5. Draft audit report in accordance with CAM 10-200, 10-300, and any special circumstances that affect the report. Use the appropriate term “certified cost or pricing data” or “data other than certified cost or pricing data” in the report. If the audit procedures necessary to opine on the proposed rates and factors are not complete, disclaim an opinion on the unaudited rates and exclude amounts associated with the unaudited rates from the audit report. The results schedule/exhibit must only show the part(s) of the proposal examined. If trend and budgetary data for all out year rates was not furnished and explained by the contractor, classify the associated costs as unsupported.	
6. On proposals expected to result in contracts covered by DFARS 252.234-7002, Earned Value Management System (EVMS), provide comments on any deficiencies being reported in surveillance reports in the report for this assignment. (CAM 10-304.10b).	
7. Complete the administrative working papers.	
8. If the proposal evaluation disclosed major or recurring cost estimating deficiencies, a report on such deficiencies should be drafted immediately and submitted to the contractor for comment. This procedure will provide for issuing the flash report at the same time or shortly after the proposal audit report is issued. (CAM 9-310).	
9. Related CAS noncompliance reports, if any, should be referenced in the text of the proposal report, and should be issued prior to the proposal audit report if possible. (See CAM 10-806).	
10. Update permanent file.	
11. Submit the working paper package and draft report to the supervisor/manager for final review and processing.	