

Master Document – Audit Program

Activity Code 23000	Forward Pricing Rate Proposal Audit
Version 5.19, dated May 2016	
B-1	Planning Considerations
Audit Specific Independence Determination	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 34) prior to starting any work on this assignment.</p>	
<p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g., FAO technical specialist) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p>	
<p>This standard audit program assists the auditor in planning and performing the audit of a forward pricing rate proposal to evaluate the proposal for its acceptability in determining fair and reasonable rates and factors for the award, administration, modification, or re-pricing of Government contracts. The audit steps contained in the program can be used on a stand-alone basis or in conjunction with the Agency’s price proposal audit steps. The audit steps should be tailored, as appropriate to the contractor’s specific circumstances, and reflect an understanding among the audit team as to the scope required to meet auditing standards and DCAA objectives for the current assignment. Portions of the audit, which are covered in other assignments (e.g. incurred cost, disclosure statement, and internal control audits), should be referenced at the appropriate place in the audit program.</p>	
<p>The audit program can also be used when the contractor updates an initial submission during the year. Audit teams should gain an understanding of the changes and accomplish a risk assessment to tailor appropriate audit coverage. Audit teams should focus on the updates, as an entire new audit may not be required. The audit team may only need to perform analytical procedures on the updated portion, which combined with the tests of details performed in the audit of the initial proposal support compliance with GAGAS.</p>	
<p>Auditors are reminded that transaction testing is only one form of tests of details. Testing the underlying assumptions supporting the budgetary amounts for reasonableness is also a test of details. When the underlying assumptions are based on historical amounts some level of limited transaction testing may be necessary, if no other incurred cost testing has been completed on the historical amounts.</p>	
Purpose and Scope	
<p>1. This audit program is designed to provide general guidance for evaluating whether the contractor's proposed forward pricing rates comply with FAR, CAS, DFARS and other Agency Supplements, if applicable.</p>	
<p>2. This audit program covers the reviews of labor rates, overhead rates, G&A rates, and Cost of Money factors which either lead to establishment of formal or informal forward pricing rate agreements, or will form the basis of subsequent auditor recommendations regarding prospective costs.</p>	
<p>3. The scope of the examination will generally depend on individual circumstances. The audit</p>	

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procedures must be tailored based on the results of the risk assessment.

For the calendar year’s initial proposal, as a minimum, the scope should include steps to determine that (i) rate computations are mathematically correct; (ii) projected business volume, allocation bases, and indirect costs are reasonable and in consonance with the contractor's internal plans; (iii) rate data are valid and current; and (iv) estimating practices comply with established or disclosed estimating and cost accounting practices.

For any updates to the calendar year’s initial proposal, the audit team should gain an understanding of the changes and accomplish a risk assessment which will determine if an entire new audit is warranted and the appropriate procedures. Analytical procedures performed on the updated section of the new submission, which combined with the detailed audit of the initial submission, should be compliant with GAGAS. The audit results may then be reported as a supplement to the initial report issued, or could be reported within the next price proposal audit.

Other Planning Considerations

Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.

References

1. FAR/DFARS/DFARS-PGI/Other Agency Supplements, if applicable; 15.403-5; 15.407 FPRAs, FAR 15.408, FAR Table 15-2, and FAR 42.1701.
2. FAR/DFARS/Other Agency Supplements Parts 30 and 31, CAS.
3. CAM 8-000 -- Cost Accounting Standards.
4. CAM 9-000 -- Audits of Cost Estimates and Price Proposals
5. CAM Appendix D--- Specialist Assistance.
6. CAM 10-200 – Audit Report Format and Contents (General)
7. CAM 10-300 – Audit Reports on Price Proposals
8. CAM Appendix D-400 – Cost Estimating Methods
9. Variable and Attribute Sampling Guidebooks
10. Graphic & Regression Analysis Guidebook, located at:
https://infoserv.dcaaintra.mil/headquarters/O/OTS/Documents/Graphic_and_Regression_Analysis_Guidebook.pdf
11. Parametric Estimating Handbook, located at:
“www.iceaaonline.org/documentation/files/ISPA_PEH_4th_ed_Final.pdf” (cut and paste link into web browser), CAM 9-1000 – Audit of Parametric Cost Estimates
12. Guidebook on Use of Economic Indexes in Contract Audits

B-01	Preliminary Steps	W/P Reference
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1.	If this is a requested audit, review the audit request to determine the nature and objective of the audit. Note any specific information	

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<p>requested and special requirements. Contact the requestor to obtain clarifications of the request and discuss any specific concerns or special requirements they may have. If self-initiated, notify the contracting officer of the commencement of the audit.</p>	
<p>2. Review the contractor prepared adequacy checklist, (note this checklist will only be available if requested by the contracting officer per DFARS 215.403-5(b)(3)), and the proposal package for adequacy using the Forward Pricing Rate Proposal Adequacy Checklist Tool, included as WP 31a in APPS. If you identify proposal inadequacies during your adequacy assessment, discuss them with contractor and the contracting officer and recommend a course of action. Post the results of your assessment to the DCAA Proposal Adequacy System.</p>	
<p>3. Send an initial acknowledgement/notification to the requestor (CAM 9-103.2) notifying them of the start of the risk assessment and that the expected completion date will be provided in a formal acknowledgment/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>4. Coordinate with contractor and contracting officer and obtain a walk-through of the proposal to gain an understanding of the basis of the proposal and related supporting documentation. Invite the contracting officer. As part of this walk-through, discuss any inadequacies identified and require the contractor to:</p> <ul style="list-style-type: none"> a. Explain the basis of estimate for significant pools, bases and cost elements b. Explain the processes used to develop the estimates and the internal controls/policies and procedures related to those areas c. If pools include significant Independent Research and Development (IR&D) costs, explain (1) whether the contractor is a "major contractor" as defined in DFARS 231.205-18(a) that is required to comply with the reporting requirements of DFARS 231.205-18(c)(iii)(C); (2) if so, policies and procedures to ensure compliance, and (3) obtain access to database input provided to the Defense Technical Information Center (DTIC) d. Demonstrate how the numbers/amounts for the significant pools, bases, cost elements and factors are derived e. Demonstrate how historical trend data was considered in the development of the FPRP f. Demonstrate the homogeneity of pool costs and allocation bases used are appropriate g. Identify the significant items that were updated or revised and the overall impact of the changes 	

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<p>If the submission is a revision/update to the forward pricing rates for the year (i.e., not the first submission for the year), have the contractor explain the reasons for the update and identify the changes between the original submission for the year and the new revision/update. (FAR 15.408 Table 15-2 I., <i>General Instructions</i>, B.; DFARS 215.407-5-70(d)(2)(iv))?</p> <p>At the conclusion of the walk-through, summarize with the contractor any additional items/data needed for the audit that were not furnished with the FPRP or were not provided during the walk-through.</p>	
<p>5. Make a final determination of overall adequacy based on initial adequacy review and results of the walk-through. If inadequate, discuss with the contractor and requestor and follow-up in writing identifying the specific concerns and recommend the contracting officer return the proposal to the contractor.</p>	
<p>6. Document the materiality and sensitivity of the FPRP by obtaining and analyzing the proposed dollar value of the pools and bases; contractor mix of contract types; mix of Government/commercial business; special contract terms (e.g., ceilings on rates); etc. Summarize the impact on the audit scope of these factors in W/P B, Section 1.</p>	
<p>7. Review permanent files and prior/in-process audits for significant and relevant inherent risk factors such as, but not limited to:</p> <ul style="list-style-type: none"> a. Audit leads, including contractor mandatory disclosures required by FAR 52.203-13(b)(3)(i) b. Prior audit findings c. Outstanding FAR and CAS noncompliances d. Cost avoidance recommendations from recent operation audits e. Disclosed accounting changes f. Planned or executed business reorganizations; mergers; acquisitions, or divestitures g. Contractor cost savings or cost reduction initiatives h. Advance Agreements i. Pertinent results from review of Board of Director minutes j. DCAA Proposal Adequacy System <p>Summarize the impact on audit scope of these factors in W/P B, Section 2.</p>	
<p>8. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures:</p> <ul style="list-style-type: none"> a. During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are 	

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<p>relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.</p> <p>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.)</p>	
<p>9. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <p>a. During the entrance conference:</p> <ul style="list-style-type: none"> • Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit. • Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result. <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"> • Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment. • Document the results of the determination in writing. • If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports. • If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports. • The request, issued by the CAC, FAO POC or auditor, should 	

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<p>include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers.</p> <p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> • Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.). • Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings. <p>d. Document the results of the inquiries including the response received from contractor’s for any request for access to internal audit reports. (If access was not granted this should include the contractor’s rationale or justification for not granting access).</p> <p>e. Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)</p>	
<p>10. Perform a high level trend analysis at the total indirect pool/base level using historical data to assess the risk of ineffective controls over estimating by performing the following steps: (See the Graphic & Regression Analysis Guidebook for assistance)</p> <p><i>Example Risk Factors:</i></p> <ul style="list-style-type: none"> • <i>Consistent underestimating of base costs</i> • <i>Consistent overestimating of pool expenses</i> • <i>Trend of costs/rates over time as compared to estimates (e.g., rates historically are flat but the contractor is forecasting an increase in its rates)</i> 	
<p>a. Determine and assess whether there have been any organizational structure changes, unusual events, or accounting changes where the historical trend analysis may not be appropriate or may require adjustment.</p>	
<p>b. To determine overall historical accuracy of contractor estimates, compare total forecasted pool and base costs and resulting rate to actual pool, base, and rate for relevant historical period. This needs to consider out years (i.e., how well did the contractor estimate rates for 2011 in 2008, 2009, and 2010).</p>	
<p>c. Document and summarize impact of trend analysis on audit risk and scope in W/P B, Section 2</p>	
<p>11. Analyze the corporate, intermediate home office and/or shared services allocations assigned to the pool and base costs to determine appropriate audit coverage by performing the following steps:</p>	
<p>a. Determine if allocated costs included in the FPRP have been audited by the FAO(s) cognizant of the allocated costs. If not, ask the cognizant auditors if there have been accounting and</p>	

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<p>organizational changes which affect the allocation of costs among the segments.</p>	
<p>b. Document the materiality of the incoming allocations.</p>	
<p>c. Perform comparative analysis of prior year(s) proposed/actual allocated cost to determine:</p> <ol style="list-style-type: none"> 1) If there is wide variability historically in the amount/proportion of allocated costs in the indirect rate pool(s), and 2) If the current proposed amount/proportion is consistent with history. 	
<p>d. Based on the materiality of allocated costs and the results of trend analysis in steps a., b., and c. above, determine if procedures (such as a decrement based on historically questioned cost) can be accomplished at the segment level upon which to base an audit opinion on the indirect rates and tailor the steps accordingly in Section I or determine if an assist audit is needed from the cognizant FAO. In step 16 below, request needed assist audits.</p>	
<p>12. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be documented in the working papers.</p>	
<p>13. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum Supervisor and Auditor) to discuss and identify potential noncompliances, due to error or fraud, that could materially affect the subject matter.</p> <p>The discussion should include</p> <ul style="list-style-type: none"> • relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies) • relevant aspects of the contractor and its environment • Risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements) • other known risk factors • the audit team’s understanding of relevant internal controls • inquiries to the contractor regarding its fraud management plans and controls. <p>Document fraud risk factors/indicators (see Sources of Fraud Risk Factors below) that are present and could materially affect the subject</p>	

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<p>matter. If fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</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>Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (http://gao.gov/products/GAO-12-331G) • AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf) • DoDIG’s Contract Audit Fraud Scenarios and Resources website (http://www.dodig.mil/resources/fraud/resources.html) <p>(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
<p>14. Document your understanding of the relevant contractor internal controls related to the significant rates, costs, or factors included in the FPRP on W/P B-02.</p>	
<p>15. When the evidence to be obtained during the audit is dependent on computerized information systems, document on W/P B-02 the audit work previously performed or to be performed that supports reliance on the computer-based evidence.</p> <p><i>Note: When sufficient work will not be performed to determine reliability, qualify the audit report in accordance with CAM 10-210.4j.</i></p>	
<p>16. Determine the need for assist audits and document on W/P B-03. Coordinate, as necessary, with the Field Detachment to determine if assistance is needed. Coordinate and request assist audits from the FAOs cognizant of the corporate home office/intermediate home office/shared service allocations as determined above.</p>	
<p>17. Identify and document the need for specialist assistance based on the understanding of the bases of estimate. Considering risk and materiality, prepare a detailed request for specialist assistance if required and document on W/P B-03. (CAM Appendix D)</p>	
<p>18. From the information gathered in the preceding steps, assess the Government's risk associated with specific pools, bases, cost elements, etc. and tailor your audit scope accordingly. Provide an overall</p>	

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<p>summary of the impact of the risk factors (materiality, sensitivity, fraud, and internal control) on the audit scope. Using this information, tailor the audit steps on the -01 working papers to reflect the audit procedures to be applied that are consistent with the unique circumstances at the contractor and the risk factors identified. Each -01 working paper should:</p> <ul style="list-style-type: none"> • Identify audit steps that are not applicable for this examination and the reason the step is not applicable; • Modify applicable existing audit steps to reflect the specific circumstances at the contractor location and the risk factors identified; and • Add audit steps to address the specific circumstances at the contractor location and the risk factors identified 	
<p>19. The team should discuss the results of the risk assessment and reach an agreement on the (i) planned audit scope, including the detailed audit steps (-01 W/Ps) to be performed, (ii) timeframe for completing the audit including the proposed delivery date which will be discussed with the requester and mutually agreed-to, (iii) milestone plan to ensure timely completion of audit, and (iv) zero-based budget. Document and obtain supervisory approval of the risk assessment and the planned scope of examination for each cost element documented in W/P B and -01 W/Ps,</p>	
<p>20. Contact the requester and verbally discuss the proposed audit report delivery date to arrive at a mutually agreed-to date. If a wide disparity exists between the contracting team deadline and the amount of time the audit team needs to perform the work, the audit team needs to discuss with the requestor this disconnect in expectations immediately. If an agreed-to date cannot be reached, audit teams should elevate the concerns through the chain of command.</p>	
<p>21. Arrange and conduct an entrance conference with the contractor personnel who developed the rates and factors. Confirm the audit team understands how the rates and factors were developed and discuss the availability of required data and personnel necessary to timely support the audit. Communicate a high-level version of the milestone plan with contractor and contracting officer to develop a shared understanding of significant dates and responsibilities (DCAA, ACO, and contractor). If applicable, include a follow up with contractor management on:</p> <ul style="list-style-type: none"> a. corrective actions that address previous DCAA audit findings and recommendations (step 9), b. other studies or audits that impact the subject matter under audit (step 10). 	
<p>22. Prepare and send a final acknowledgment memorandum to the requester to communicate our audit scope and the agreed-to date.</p>	
<p>23. Prepare and send a notification letter to the contractor</p>	

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C-01	Testing Reliability of Historical Data	W/P Reference
Version 5.19, dated May 2016		
<p><i>These steps are applicable when unaudited historical costs are used as the basis of the proposed rates or are used as part of our audit evaluation. In addition, you should qualify the report when you rely on significant unaudited data in your examination.</i></p>		
1. Reconcile historical costs to books and records.		
2. Determine if there are significant variations/outliers in the incurred amounts (by account) for a relevant period of history using trend/comparative analysis.		
<p>3. Perform detailed testing of any significant variations or outliers identified in Step 2 above (See CAM 9-703.5).</p> <p><i>Note: The purpose of this test is to determine whether the outliers represent a need to consider an adjustment to the recorded historical cost data used to support the proposed rates</i></p>		
4. Determine if additional procedures need to be performed to provide reasonable assurance that historical cost, used as a basis of estimate or in support of planned audit procedures, is reliable. If so, add those additional procedures to the audit program.		
5. Review and document the performance of real-time audit procedures (including any related follow-up and resolution) performed on historical data supporting projected future costs (i.e. Real-time Labor testing; Real-time Material testing; Indirect Allocation Bases).		

D-01	Direct Labor Rates (CAM 9-500)	W/P Reference
Version 5.19, dated May 2016		
<p>Considering the understanding of the basis of estimate documented in the risk assessment (W/P B section), perform the following procedures:</p>		
1. Compare the basis of the proposed direct labor rates to disclosed or established practices and compare proposed rates to actual rates recorded in the contractor’s accounting system to ensure estimated rates are not in greater detail than accumulated (CAS 401/CAS 402/FAR 31.202)		
2. If average rates are used, determine if the contractor’s method for developing average rates (e.g., weighted by number of employees by pay grade or simple average) is reasonable and direct labor rate categories are homogeneous (CAS 418-50(a)(2)(ii)).		

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<p>3. Compare proposed base year (year 1) labor rates to current payroll data, signed employee agreements, appropriate Wage Determination rates (if applicable) and analyze significant differences, if any. Note: Proposed rates based on current payroll or historical rates should be further evaluated for reasonableness, i.e. there is no presumption that historical rates are reasonable. (See step 7 below.)</p>	
<p>4. Determine if the contractor plans to implement cost savings or cost reduction initiatives (such as pay freezes, plant shutdowns, etc.) and if these are reflected in the forecasted costs.</p>	
<p>5. Evaluate the proposed labor rates and determine if the contractor considered the impact the following issues may have on the projected rates:</p> <ul style="list-style-type: none"> a. Known or anticipated changes in headcount (hiring/layoffs/turnover) b. Proposed rates for salaried employees reflect total hours worked (including uncompensated overtime). c. Shift differentials and overtime premiums. 	
<p>6. Evaluate the reasonableness of the proposed escalation/merit increases considering the following:</p> <ul style="list-style-type: none"> a. Guidebook on Use of Economic Indexes in Contract Audits (https://infoserv.dcaaintra.mil/headquarters/O/OTS/Documents/Guidebook_Use_of_Econ_Indexes.pdf). b. Management approved wage increases/plans or budgets or HR raise information including the timing of granting raises (once a year or continually throughout the year) c. Historical wage increases. d. Union agreements 	
<p>7. Evaluate the reasonableness of both direct and indirect compensation (FAR 31.205-6) based on risk by designing appropriate audit procedures. Consider the following in determining reasonableness:</p> <ul style="list-style-type: none"> a. Basis of contractor’s compensation pay structure (for example, compensation and/or rates are established and periodically compared to market pay levels). b. Prior reviews of compensation levels or rates including system audits, if applicable. c. The contractor’s other practices for establishing compensation not covered in a. above including but not limited to bonus policies and practices. d. Independent survey data <p>If you are unable to evaluate reasonableness from the information you have on file or have obtained from the contractor, consider contacting the FAO/Regional point of contact or Mid-Atlantic Compensation Team for guidance and assistance in determining the reasonableness of the proposed direct labor rates. The Mid-Atlantic Compensation Team and most regions have access to surveys that include compensation market data, and have experience related to determining the reasonableness of proposed compensation.</p>	

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<p><i>Note: Compensation pursuant to labor-management agreements (bargaining unit employees) will not be tested for reasonableness under FAR 31-205-6(b)(2). See CAM 6-413.1</i></p>	
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E-01	Indirect Rates (CAM 9-700)	W/P Reference
	Version 5.19, dated May 2016	
	1. General	
	Considering the understanding of the basis of estimate documented in the risk assessment (W/P B section), perform the following procedures:	
	a. Compare composition of pools and allocation bases in the proposed FPRP to disclosed or established practices (CAS 401, 402, FAR 31.203(a)).	
	b. Verify that the accounting period coincides with the contractor’s fiscal year or historical rate period (CAS 406/FAR 31.203(g)).	
	c. Reconcile contractor pool, base, and rate projections with budgetary data or other internal reports (operating budgets, sales forecasts, programs budgets, long range plans, etc.) (CAM 5-500). <i>Note: The extent of detail will vary depending on the specific data supporting each year and based on the size and complexity of the contractor.</i>	
	2. Indirect Cost Pool Estimates	
	Considering the understanding of the basis of estimate documented in the risk assessment (W/P B section), perform the following procedures:	
	a. Determine that pool costs are homogeneous (FAR 31.203(c); CAS 418)	
	b. Determine the percentage of unallowable costs (and voluntary deletions) in prior year incurred costs audits and unaudited submissions and determine if proposed costs are properly adjusted for historical unallowable/not claimed costs. If not, consider decrementing proposed pool costs for historical unallowable/not claimed costs (FAR Part 31, CAS 405).	
	c. Perform a nomenclature review of overhead cost accounts included in the forecasted pools to identify potentially unallowable accounts (FAR Part 31, CAS 405).	
	d. Compare proposed costs by cost element to historical trend data developed in audit step C-1, Step 2 to determine if proposed costs are consistent with historical trends. Identify and test any significant	

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variations/outliers.	
e. Determine if the contractor plans to implement cost savings or reduction initiatives (such as pay freezes, plant shutdowns, etc.) and if these are reflected in the forecasted costs. If not properly reflected in forecasted costs, make adjustments as appropriate	
f. Consider performing a regression analysis to determine reasonableness of forecasted overhead costs (see Graphic & Regression Analysis Guidebook Chapter 4).	
g. Evaluate reasonableness of escalation factors or other adjustments made to out-year pool expenses.	
h. Confirm costs covered by advance agreements are forecasted in accordance with those agreements and that such agreements are still valid for the forecast period.	
i. If applicable, design necessary level of substantive procedures (analytical procedures and/or detailed testing) of additional accounts as determined in the risk assessment. Document those procedures in the “Additional Audit Steps” below.	
j. Incorporate any results of compensation reasonableness reviews performed in step 7 of w/p D-01. Document allocable compensation costs are allowable and reasonable.	
3. Indirect Rate Allocation Bases	
Considering the understanding of the basis of estimate documented in the risk assessment (W/P B section), perform the following procedures:	
a. Determine if the allocation base is common to all cost objectives to which the pool is to be allocated and the base selected results in allocation of costs in reasonable proportion to the beneficial or causal relationship of the pooled costs (FAR 31.203(c); CAS 418).	
b. Verify that the allocation base reasonably represents all firm and anticipated (non-firm) business (FAR 31.201-3; FAR 31.201-4). Consider steps such as:	
1) Compare projected costs in the base for backlog contracts to Estimates to Complete used for progress payments or EVMS reporting (including management reserve amounts) for significant programs or contracts.	
2) Contact FLA or major procurement commands to find out if there are significant pending actions that should be included in the forecasted base.	
3) Interview marketing department, business development team and/or program managers to ensure prospective new business was considered in the proposed forecast	
4) Compare forecasted costs (labor, material, etc.) for specific contracts or programs to recent proposals	

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F-01	G&A Rate (CAM 9-700)	W/P Reference
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1. General		
Considering the understanding of the basis of estimate documented in the risk assessment (W/P B section), perform the following procedures:		
a. Compare composition of pool and allocation base in the proposed FPRP to disclosed or established practices (CAS 401, 402, FAR 31.203(a)).		
b. Verify that the accounting period coincides with the contractor’s fiscal year or historical rate period (CAS 406/FAR 31.203(g)).		
c. Reconcile contractor pool, base, and rate projections with its budgetary data or other internal reports (operating budgets, sales forecasts, programs budgets, long range plans, etc.) (CAM 5-500).		
2. G&A Cost Pool Estimates		
Considering the understanding of the basis of estimate documented in the risk assessment (W/P B section), perform the following procedures:		
a. Determine that pool costs meet the definition of G&A (FAR 2.101; CAS 410)		
b. Determine the percentage of unallowable costs (and voluntary deletions) in prior year incurred costs audits and unaudited submissions and determine if proposed costs are properly adjusted for historical unallowable/not claimed costs. If not, consider decrementing proposed pool costs for historical unallowable/not claimed costs (FAR Part 31, CAS 405).		
c. Perform a nomenclature review of G&A cost accounts included in the forecasted pools to identify potentially unallowable accounts (FAR Part 31, CAS 405).		
d. Compare proposed costs by cost element to historical trend data developed in audit step C-1, Step 2 to determine if proposed costs are consistent with historical trends. Identify and test any significant variations/outliers.		
e. Determine if the contractor plans to implement cost savings or reduction initiatives (such as pay freezes, plant shutdowns, etc.) and if these are reflected in the forecasted costs. If not properly reflected in forecasted costs, make adjustments as appropriate		
f. Consider performing a regression analysis to determine reasonableness of forecasted pool costs (see Graphic & Regression Analysis Guidebook Chapter 4).		
g. Evaluate reasonableness of escalation factors or other adjustments made to out-year pool expenses.		
h. Confirm costs covered by advance agreements are forecasted in		

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accordance with those agreements and that such agreements are still valid for the forecast period.	
i. If applicable, design necessary level of substantive procedures (analytical procedures and/or detailed testing) of additional accounts as determined in the risk assessment. Document those procedures in the “Additional Audit Steps” below.	
3. G&A Allocation Bases	
Considering the understanding of the basis of estimate documented in the risk assessment (W/P B section), perform the following procedures:	
a. Determine if the allocation base is common to all cost objectives to which the pool is to be allocated, results in allocation of costs in reasonable proportion to the beneficial or causal relationship of the pooled costs, and represents total activity of the business unit (FAR 31.203(c); CAS 410).	
b. Verify the allocation base reasonably represents all firm and anticipated (non-firm) business (FAR 31.201-3). Consider steps such as:	
1) Compare projected costs in the base for backlog contracts to Estimates to Complete used for progress payments or EVMS reporting (including management reserve amounts) for significant programs or contracts.	
2) Contact FLA or major procurement commands to find out if there are significant pending actions that should be included in the forecasted base.	
3) Interview marketing department, business development team and/or program managers to ensure prospective new business was considered in the proposed forecast	
4) Compare forecasted costs (labor, material, etc.) for specific contracts or programs to recent proposals	

G-01	Cost of Money (COM)	W/P Reference
Version 5.19, dated May 2016		
Considering the understanding of the basis of estimate documented in the risk assessment (W/P B section), perform the following procedures:		
1.	Determine if the proposed COM factors (CAS 414 and CAS 417) are consistent with disclosed/established practices. (CAS 401/CAS 402, FAR 31.201-1)	
2.	Verify that the accounting period coincides with the contractor’s fiscal year or historical rate period (CAS 406/FAR 31.203(g)).	
3.	For significant COM pools, compare proposed net book value (NBV) actual NBV in prior year(s) and analyze major variances.	

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4. Trace a representative sample of the proposed net book values amounts to the underlying reports and records (capital acquisition plans; asset ledger; etc.).	
5. Verify that the contractor used the correct Treasury Rate (CAS 414; CAM 8-414.1)	
6. Evaluate whether the net book values of the assets are correctly divided between distributed and undistributed. (CAM 8-414.1c(2)).	
7. Determine whether undistributed assets are allocated to the appropriate indirect expense pools on a basis that approximates the actual absorption of depreciation/amortization of the assets (CAS 414; CAM 8-414.1c(2)).	
8. Capital Assets Under Construction:	
a. Determine if any of the contractor's criteria for the measurement of the cost of money is attributable to capital assets under construction, fabrication, or development as an element of the cost of those assets (CAS 417; CAM 417.1(a)).	
b. For significant capital assets being constructed, fabricated, or developed, verify that a representative investment amount is determined each cost accounting period, giving appropriate consideration to the rate at which costs of construction are incurred (CAM 417.1(b)).	
c. Verify that cost of money for assets under construction are not capitalized for any period during which substantially all the activities necessary to get the asset ready for its intended use are discontinued (unless such discontinuance arises out of causes beyond the control and without the fault or negligence of the contractor) (CAM 417.1(c)).	
9. Verify that the allocation bases are compatible with the allocation base used for estimating the proposed indirect rates. (CAS 401, CAS 414, and FAR 31.203(d)).	

H-01	Other Rates and Factors	W/P Reference
Version 5.19, dated May 2016		
<i>Develop audit steps appropriate to the risk and materiality of the other rates and factors proposed in the FPRP considering the understanding of the basis of estimate documented in the risk assessment (W/P B section).</i>		

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I-01	Corporate Allocations (Audit Procedures at the Segment/Business Unit) (CAM 9-700)	W/P Reference
Version 5.19, dated May 2016		
1.	General	
	Considering the understanding of the basis of estimate and analysis documented in the risk assessment (W/P B section), perform the following procedures:	
	a. Compare composition of incoming allocated costs included in the FPRP to disclosed or established practices (CAS 401, 402, FAR 31.203(a)).	
	b. Reconcile costs included in the segment proposal to costs included in corporate home office, intermediate home office, shared services, etc., proposal(s) (CAM 5-500). Coordinate with FAO(s) cognizant of the allocated costs to ensure that the segment proposal reflects the most current amounts proposed by the corporate, home office, shared service, etc.	
	2. If allocated costs included in the FPRP have been audited by the FAO(s) cognizant of the allocated costs, document and incorporate results of assist audits.	
	3. If you determined in the risk assessment that an assist audit is not required, accomplish the additional procedures documented as a result of audit step B.10. in the "Additional Audit Steps" below.	
	4. If an assist audit has been requested but not received analyze the applicable costs and determine whether the report can be issued with a qualification to the audit opinion and the allocated costs set out as unresolved or whether the costs are so significant to the overall pool/rate that a disclaimer of opinion is warranted.	

A-01	Concluding Steps	W/P Reference
Version 5.19, dated May 2016		
1.	Summarize and document the audit results.	
2.	The supervisory auditor and appropriate management members of the team should perform a final review of the working papers and audit results.	
3.	After management approval, conduct and document an exit conference with contractor representative(s) in accordance with procedures specified in CAM 4-304.	
4.	Draft audit report in accordance with CAM 10-200, 10-300, and any special circumstances that affect the report.	

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5. Auditors should document and communicate with the contracting officers upon the completion of our audit:	
a. Brief the requestor/contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues.	
b. Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.	
6. Complete the administrative working papers.	
7. If the 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 deficiency report at the same time or shortly after the proposal audit report is issued. (CAM 9-310).	
8. Related CAS noncompliance reports, if any, should be referenced in the audit report, and should be issued generally at the same time as the proposal audit report, if possible. (See CAM 10-806).	
9. Update permanent file.	
10. Based on the recommended forward pricing rates, determine need for revision of billing rates (CAM 9-1206c).	
11. Submit the working paper package and draft report to the supervisor/manager for final review and processing.	