



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PSP 730.5.1.A/2010-018

October 7, 2010
10-PSP-028(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Revised Audit Program for Price Proposal Audits, Part(s) of Proposal Audits and Cost Realism Audits

SUMMARY

Effective immediately, price proposal audits (21000), part(s) of proposal audits (27000), and cost realism audits (27010) shall be accomplished using the revised standard audit program (Version 1.0) which is included as an Enclosure. Separate standard audit programs for each proposal Activity Code are no longer necessary as the same fundamental procedures exist for each assignment and should be tailored for specific risks and circumstances. The revised audit program requires that the auditor have a thorough understanding of the audit request, the proposal being audited, and the audit objectives as the audit program will require significant tailoring to reflect the specific audit circumstances to meet the objectives of the specific audit engagement.

BACKGROUND

Recent internal reviews have disclosed concerns that the appropriate level of testing may not have been accomplished in some forward pricing audits. The level of testing (i.e., the combination of analytical procedures and detailed transaction testing) should be based on the assessed level of risk based on the auditor's understanding of the contractor as well as the subject matter being audited (e.g., type of proposed contract). While there is no substitute for the use of auditor judgment in choosing the audit procedures necessary to meet the audit objectives, we recognize that enhancements to the previous standard audit programs may assist the auditor in arriving at the appropriate audit scope and audit procedures. Therefore, with input from the Regions and Field Detachment, we have drafted a revised standard audit program to cover all price proposal audits eliminating the need for separate audit programs as the fundamental audit concepts for each audit type are the same. The standard audit program has been successfully field tested.

GUIDANCE

All Activity Codes 21000, 27000 or 27010 assignments established on or after the date of this memorandum shall use the revised audit program. This audit program replaces the *21000 Price Proposal Over \$10 Million Audit Program*, the *21000 Price Proposal Under \$10 Million Audit Program*, the *27000 Cost Element Audit Program*, and the *27010 Cost Realism Audit Program*. The APPS have been updated to deliver the revised audit program with all new assignments. The revised audit program is also available on the DCAA intranet.

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Auditors are reminded that the audit program represents a starting point for planning the audit procedures to be accomplished. Auditors are expected to have a thorough understanding of the audit request, contractor proposal, and the audit objectives before tailoring the standard audit program. For example, audit program Section E, *Direct Labor Rates*, Section N, *Indirect Rates*, and Section T, *Cost of Money*, will need to be modified depending on whether an FPRA is in place, or the auditor will rely on previously audited rates, or whether the rates will have to be audited as part of the current proposal audit. The revised audit program includes a separate set of audit steps depending on the circumstances and allows the supervisor and auditor visibility on the complete set of audit procedures to facilitate the proper tailoring based on risk. The auditor will be required to line out those sections of steps that are not applicable (and provide an explanation for not performing these sections/steps) while making other modifications to the standard audit program steps as appropriate (see MRD 10-PPS-027, dated September 30, 2010).

The revised audit program will help us deliver on our commitment to meet the professional standards in our examination of the cost elements presented in each of the major types of forward pricing, as follows:

Full Proposal Audit (21000)

Auditors are often requested to examine all cost elements contained in the price proposal. These audits assist the contracting officer in reaching a final price that is fair and reasonable when a cost analysis has been determined necessary. Cost analysis is the review of the separate cost elements in a contractor's proposal (including certified cost or pricing data or data other than certified cost or pricing data), and the application of judgment to determine how well the proposed costs represent what the cost of the contract should be (see FAR 15.404-1(c)). With audit program sections covering all the typical cost elements, as well as new sections for parametric estimates and interdivisional work orders, the revised audit program offers versatility to serve as an effective starting point for auditors to create an audit scope that will satisfy the set of audit objectives unique to each full proposal engagement.

Part(s) of a Proposal Audit (27000)

Audits of parts of a proposal assist the contracting officer in reviewing the separate cost elements in a price proposal. With compartmentalized sections for cost elements and portions of cost elements (e.g., direct labor costs, direct labor hours, direct labor rates), the audit program allows the auditor to develop and tailor the sections that correspond to each unique audit request.

Cost Realism Audit (27010)

The contracting officer may require contractors to provide data other than certified cost or pricing data to support a determination of cost realism (FAR 15.403-1(b)). This generally occurs in support of a procurement based on competition. When this occurs, auditors may be requested to examine the supporting cost based data to determine if the estimate is realistic (e.g., not significantly understated as a means to "buy into" the program). Auditors should appropriately tailor the audit

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program considering the reduced risk associated with a competitive procurement compared to a single sole source procurement. Each section of the audit program emphasizes the need for the auditor to understand and test the basis of estimate based on the risk; design the procedures that will reveal misstatements (e.g., understatements as well as overstatements) and provide the opinion necessary to support the contracting officer's decision. In addition to the revised audit program, the code 27010 *Cost Realism* report shell was revised to reflect the significant increase in requests for audits of the entire proposal to support source selections.

Enhancements to the Risk Assessment Section

In addition to the enhanced audit procedures for each proposal cost element, the risk assessment procedures have been expanded to assist in establishing the audit scope and designing the required audit procedures. The risk assessment includes a step to obtain a walk-through of the proposal from the contractor to achieve an understanding of the basis of the estimates, assess its general adequacy, and gain an understanding of the internal controls affecting proposal development. We have revised working paper B-2 for proposal audits to better facilitate the auditors understanding and documentation of the contractor internal controls related to the development of the proposal being audited and provide for the design of appropriate audit procedures based on that understanding. We also enhanced the audit steps to help ensure auditors 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). A step is also included to identify proposed subcontractors to promote early assessment of the need for assist audits. Lastly, this section includes a comprehensive step to assist in establishing the appropriate testing of direct and indirect rates based on the specific circumstances for the contractor.

CLOSING REMARKS

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Pricing and Special Projects Division, at (703)-767-3290 or e-mail at DCAA-PSP@dcaa.mil.

/s/ David E. Johnson
/for/ Kenneth J. Saccoccia
Assistant Director
Policy and Plans

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Activity Code	Price Proposal
Version No. 1.0, updated October 2010	
B-1	Planning Considerations
Purpose and Scope	
<p>This standard audit program assists the auditor in planning and performing the audit of price proposals to evaluate the proposal for its acceptability for determining a fair and reasonable price. The program steps should be tailored, as appropriate, and reflect an understanding between the auditor and supervisor 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, you must evaluate deletions as well as additions, and your computation of dollars audited should add deletions rather than netting them against additions. In reviewing deletions, it is important to verify the following:</p>	
<p>(a) All replaced or deleted elements of the schedule have been identified and priced out.</p>	
<p>(b) All deleted or modified line items are priced at the present estimated value.</p>	
<p>(c) All applicable indirect expense has been considered.</p>	
<p>(d) In general, audit considerations for open CLINs are similar to terminations, while unopened CLINs more closely resemble equitable adjustment claims.</p>	
<p>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.</p>	

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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. 1.0, updated October 2010		
1.	Review the Request for Proposal (RFP): <ul style="list-style-type: none"> a. Identify the type of data required of the contractor (i.e., cost or pricing data or information other than 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. b. Identify and document any special requirements or provisions (i.e., established rates, hours, time-phasing, material quantities, etc). 	
2.	Verify that the proposal was approved by an appropriate level of management. If so, review the proposal package for adequacy based on the criteria established in Step 1. 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).	
3.	Review the audit request for scope limitations or special requirements. Communicate with the requester as soon as practical to confirm your understanding of the expectations and discuss any specific concerns. Inform the requester of your intent to issue an acknowledgment letter immediately after the risk assessment is complete.	

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<p>4. Coordinate with contractor and obtain a walk-through of the proposal to gain an understanding of the basis of the proposal and related supporting documentation. 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>5. Determine the basis of the proposed rates.</p> <ul style="list-style-type: none"> a. If proposed rates are not based on a FPRA/FPRR and have not been audited, perform audit procedures in W/P E-1, N-1, T-1 – <i>No Audited Rates</i> based on your risk assessment as appropriate. b. If proposed rates are not based on a FPRA/FPRR and we have completed an audit of the rates, 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/FPRR and we have not completed an audit of the rates that were used as the basis for the FPRA/FPRR, 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/FPRR and DCAA does not agree with the established rates due to the results of a concurrent or recent examination, discuss with your supervisor/FAO manager 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 your risk assessment as appropriate. e. If proposed rates are based on a FPRA/FPRR 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/FPRR</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 your risk assessment as appropriate. 	
<p>6. Assess Materiality. Document your 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>	

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contribute to the total proposed value.	
7. Obtain and document your understanding of the relevant contractor internal controls related to the contractor’s proposal on W/P B-2 (e.g., estimating, accounting).	
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. Consider audit leads or key prior audit findings from a review of permanent files and prior audits.	
12. Determine whether there are any outstanding FAR or CAS noncompliances affecting the proposal. If there are noncompliances, discuss with your supervisor how they will affect your audit scope and how they are to be presented in the audit report.	
13. In planning and performing the examination, consider the fraud risk indicators specific to forward pricing. The principal sources for the applicable fraud risk indicators are:	
▪ Handbook on Fraud Indicators for Contract Auditors, Section III,	

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<p>(IGDH 7600.3, APO March 31, 1993) located at</p> <p>http://www.dodig.mil/PUBS/igdh7600.doc</p> <p>(To access the handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p> <p>CAM Figure 4-7-3.</p> <p>Document on W/P B, Section 4, any identified fraud risk indicators and your planned response/actions to the identified risks and your conclusion.</p>	
<p>14. Conduct an entrance conference. Confirm your 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. Discuss with your supervisor the results of the risk assessment and reach an agreement on the planned audit scope, including the detailed audit steps (-1 W/Ps) to be performed. 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 -1 W/Ps.</p>	
<p>17. Prepare and send an acknowledgment memorandum to the requestor.</p>	

D-1	Summary of Direct Labor Costs	W/P Reference
Version No. 1.0, updated October 2010		
Summarize audit results of labor rates (W/P E) and labor hours (W/P F and/or G).		
1. Calculate the questioned due to rate amount, then calculate the questioned due to base amount using the audit determined rates.		

E-1	Direct Labor Rates - Established Rates by FPRA/FPRR (Step B-1, 5.e)	W/P Reference
Version No. 1.0, updated October 2010		
1. Trace proposed labor rates to the rates specified in the applicable		

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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, discuss with your supervisor 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 (Steps B-1, 5.b, and 5.d)	W/P Reference
Version No. 1.0, updated October 2010		
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, discuss with your supervisor 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 (Steps B-1, 5.a, 5.c, and 5.f)	W/P Reference
Version No. 1.0, updated October 2010		
<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).	

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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, and 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.	
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. 1.0, updated October 2010		
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,	

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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 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. 1.0, updated October 2010		
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	

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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
Version No. 1.0, updated October 2010		
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. 1.0, updated October 2010		
<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,	

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<p>subcontract and interdivisional W/P M, S, & I sections respectively (see CAM 9-403).</p>	
<p>2. Document your understanding of the basis of the prices, kinds, and quantities of material underlying the proposed cost. (CAM 9-400)</p>	
<p>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.</p>	
<p>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)).</p>	
<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. When cost or pricing data are required/submitted by the vendor determine if the prime contractor obtained and analyzed 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>11. 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</p>	

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manner that properly reflects the expected purchase date of the material.	
12. Incorporate the results of a technical review, if applicable.	
13. Calculate the questioned material costs, if applicable.	
14. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

N-1	Indirect Rates – Established Rates by FPRA/FPRR (Step B-1, 5.e)	W/P Reference
Version No. 1.0, updated October 2010		
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). If conclusions differ from any significant rates in the FPRA/FPRR, discuss with your supervisor 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.	

N-1	Indirect Rates – Audited Rates (Steps B-1, 5.b, and 5.d)	W/P Reference
Version No. 1.0, updated October 2010		
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, discuss with your supervisor 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 due to rate amount, then calculate the questioned due to base amount using the audit determined rates.	

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4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	
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N-1	Indirect Rates – No Audited Rates (Steps B-1, 5.a, 5.c, and 5.f)	W/P Reference
Version No. 1.0, updated October 2010		
<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.	For significant indirect pools, compare proposed rates to prior year(s) rates and year-to-date experience and analyze major variances.	
5.	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).	
6.	Verify the proposed rates properly reflect anticipated changes to future operations (CAM 9-702.2).	
7.	Review proposed indirect expense accounts by nomenclature to ensure that the estimates do not include unallowable costs per FAR Part 31. Verify that the estimates exclude unallowable expenses and the deletions are reasonably in line with history.	
8.	Review selected significant or high risk expense accounts in the pools to evaluate the reasonableness of specific estimates.	
9.	Determine that the bases are appropriate for allocating the indirect expenses and in accordance with established or disclosed practices (CAS 403, 410, 418, and 420, if applicable).	
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	

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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.	
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 due to rate amount, then calculate the questioned due to base amount using the audit determined rates.	
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. 1.0, updated October 2010		
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.	

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S-1	Subcontracts	W/P Reference
Version No. 1.0, updated October 2010		
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. When cost or pricing data are required by the subcontractor determine if the prime contractor obtained and analyzed 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.		
3. 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).		
4. 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.		
5. Review and evaluate significant contractor make-or-buy decision documentation (CAM 9-405).		
6. 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.		
7. Calculate the questioned subcontract costs, if applicable.		
8. 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
Version No. 1.0, updated October 2010		
Intracompany Work Orders (CAM 9-105)		

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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 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 (Step B-1, 5.e)	W/P Reference
Version No. 1.0, updated October 2010		
1.	If rates were established without reliance on a DCAA audit, or we do not agree with the FPRA/FPRR, see Step 5 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). If conclusions differ from any significant rates in the FPRA/FPRR, discuss with your supervisor the need to coordinate with the administrative contracting officer and the potential need to recommend withdrawing from the FPRA/FPRR.	

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4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	
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T-1	Cost Of Money (COM) Rates – Audited Rates (Steps B-1, 5.b, and 5.d)	W/P Reference
Version No. 1.0, updated October 2010		
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). If the adjustments to the originally audited rates are significant, discuss with your supervisor 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 due to rate amount, then calculate the questioned due to base amount using the audit determined rates.	
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 (Steps B-1, 5.a, 5.c, and 5.f)	W/P Reference
Version No. 1.0, updated October 2010		
<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)).	
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.	

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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 due to rate amount, then calculate the questioned due to base amount using the audit determined rates.	
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. 1.0, updated October 2010		
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 final supervisory/manager 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.	
4.	Draft audit report in accordance with CAM 10-200, 10-300, and any special circumstances that affect the report. Use the appropriate term “cost or pricing data” or “information other than 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	

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data for all out year rates was not furnished and explained by the contractor, classify the associated costs as unsupported.	
5. 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).	
6. Complete the administrative working papers.	
7. 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).	
8. 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).	
9. Update permanent file.	
10. Submit the working paper package and draft report to the supervisor/manager for final review and processing.	