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Activity Code 27000		Cost Element Audit
Version 3.0, dated April 2004		
B-1	Planning Considerations	
<p>Note: 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 this audit package.</p>		
Purpose		
<p>To provide 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 in accordance with the guidance in CAM 9.</p>		
Scope		
<p>The audit steps selected for completion represent a determination of requirements based on auditor judgment, the supervisor's risk assessment and specific contracting officer requirements.</p>		
Special Circumstances Affecting the Audit		
<ol style="list-style-type: none"> 1. If no technical evaluation will be furnished, the auditor is responsible for requesting technical assistance where necessary to audit the cost representations. When qualifications are significant enough to warrant it, the "Qualifications" paragraph should follow the guidance in CAM 10-304.4, as supplemented in CAM 9-210 2 and Appendix D. 2. If the request specifies a due date, which may be inadequate, ask the requester why the turnaround has been shortened. Offer to provide verbal results as soon as the supervisor approves the report, in exchange for a more conventional due date. Warn the requester that the report may be qualified for time constraints if an extension is not granted. If the report cannot be completed by the due date, and the auditor is unable to comment fully on the items included in the audit request, the report should recommend that negotiations be delayed until the review can be completed. 3. Determine whether this pricing action has already been awarded. If this is a subcontract proposal determine whether the prime contract pricing action has been 		

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<p>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(f). If contract award has already been made, STOP WORK NOW and confer with supervisor.</p>
<p>4. If the proposal is only supported by sales or pricing information and no cost information is involved the auditor may not perform an examination on the proposal, STOP WORK NOW, and confer with your supervisor (CAM 9-207a.). Discuss with the requesting official alternative services which can be performed.</p>
<p>5. If a technical evaluation will be provided for incorporation in the audit report and, if, in the auditor's opinion, the technical report is inconsistent with the facts, the auditor should attempt to reconcile the differences with the technical personnel. The auditor is responsible for requesting additional technical assistance if necessary to evaluate the cost representations. If conditions warrant it, the "Results of Audit" should recommend postponement of negotiations until technical assistance is received.</p>
<p>6. 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>(1) All replaced or deleted elements of the schedule have been identified and priced out.</p>
<p>(2) All deleted or modified line items are priced at the present estimated value.</p>
<p>(3) All applicable indirect expense has been considered.</p>
<p>(4) In general, audit considerations for open CLINs are similar to terminations, while unopened CLINs more closely resemble equitable adjustment claims.</p>
<p>7. If the contractor does not have approved Cost-of-Money rates and if the submission is adequate but lacks ACO approval, the audit report must be qualified. If the submission is unaudited or inadequate, you must take corrective action under another assignment.</p>
<p>8. The audit request specifies more detailed review and/or reporting requirements than are customary. Extra care is required to assure that the resulting report is fully responsive to the request.</p>
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1. Request for proposal, "Scope of Audit" (above.)
2. FAR 31.
3. CAM Chapter 9.
4. CAM Chapter 10, Sections 2 and 3.
5. FAR 15.4, DAR 3-8, "Contract Pricing."
6. FAR 52.215-2, DAR 7-104.41, "Audit and Records Negotiation."
7. Recent price proposal work packages(s)
8. DCAA Contractor Current and Permanent Files
9. CAM Appendix B, "Statistical Sampling Techniques"
10. CAM Appendixes E, "Graphics and Computational Analysis Techniques" and F, "Improvement Curve Analysis Techniques.
11. CAM Appendix D, "Technical Specialist Assistance"
12. DCAAP 7641.91, Quantitative Methods for Auditors.
13. DCAAP 7641.74, Use of Economic Indexes in Contract Audits.

B-1	Preliminary Steps	WP Reference
Version 3.0, dated April 2004		
1.	Obtain an understanding of the audit services to be performed and perform an initial review of the proposal package, RFP and audit request:	
a.	Note the report due date. The specified date due to supervisor includes sufficient time for adequate reviewing, typing, and mailing (usually 3 to 5 days).	
b.	Contact the requestor before beginning the audit to ensure there is a clear understanding of the requestor's needs. Coordinate on the following areas as necessary:	
(1)	If the proposal value is under the DFARS 215.404-2(a) threshold, i.e., <ul style="list-style-type: none"> • fixed price proposals exceeding the cost or pricing data threshold [CAM 14-103.2b]; • cost-type proposals exceeding the cost or pricing data threshold from offerors with significant estimating system deficiencies; or • cost-type proposals from offerors without significant 	

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<p>estimating system deficiencies, even though the proposal exceeds \$10 million.</p> <p>Discuss the possibility of performing an alternative audit service, (i.e. specified cost information review, specified cost element, agreed-upon procedure) (CAM 9-102.3).</p>	
<p>(2) Determine if the proposal is based on cost or pricing data or information other than cost or pricing data and document the source information for the determination. Cost or pricing data is data that will require certification in accordance with FAR 15.406-2. Information other than cost or pricing data represents information that is not required to be certified.</p>	
<p>(3) If the proposal is based on information other than cost or pricing data, determine the level of cost information submitted in support of the part of the proposal to be audited (by reviewing the proposal, reviewing the RFP, discussing with the requesting official, or discussing with the contractor). If in your opinion, the contracting officer has not required a level of cost information that would be a sufficient basis upon which to render an unqualified opinion, then an examination of the part of the proposal may not actually be needed. Discuss with the requesting official the level of cost information submitted, the requested services, and alternative DCAA services, such as an application of agreed-upon procedures given the information other than cost or pricing data required. (CAM 9-207d.) If the requesting official continues to need an audit of the part of the proposal, recommend that the requesting official request that the contractor submit additional cost information in support of the part of the proposal to be audited. Also, advise the requesting official that once the auditor has begun fieldwork, if no additional data is forthcoming, then it is possible that the auditor will not have sufficient evidence upon which to base an unqualified opinion and an adverse opinion may result. After discussion with the requesting official, STOP HERE and coordinate with your supervisor before proceeding. A customer decision to request an alternative type of service, i.e., application of agreed-upon procedures, will require establishment of a different type of assignment.</p>	
<p>(4) Review the part of the proposal to be audited for adequacy (CAM 9-103.1b). Auditors may use the “Criteria for Adequate Contract Pricing Proposals” checklist to evaluate the adequacy of the contractor’s proposal. This checklist (Adequacy.doc) can be found in APPS under Other Audit Guidance. DO NOT EXPEND AUDIT EFFORT ON THE REVIEW AND EVALUATION OF INADEQUATELY PREPARED OR SUPPORTED PROPOSAL PACKAGES. Auditors should</p>	

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<p>comply with guidance in CAM 9-304 "Proposal Format and Support", and CAM 9-310 "Deficiencies in Specific Cost Estimates". If the part of the proposal to be audited is not adequate, coordinate with the supervisor. Inform the requesting official of proposal inadequacies. Request that the requesting official provide assistance in having the contractor provide an adequate proposal. Return the proposal to the requesting official as appropriate.</p>	
<p>(5) Technical assistance. Determine if a technical review is necessary W/P B-3. If so request technical assistance and coordinate with the contracting officer to determine whether the results will be available for incorporation into our audit (CAM 9-306).</p>	
<p>(6) Report issuance date changes</p>	
<p>(7) Unsupported costs in proposal</p>	
<p>(8) Access to records problems</p>	
<p>(9) Inadequate cost/pricing data</p>	
<p>(10) Requests for field price analyses and assist audits on prospective noncompetitive subcontracts (W/P B-3).</p>	
<p>c. Note any specific information requested. Add audit steps to audit program where necessary to comply with this request. Obtain approval of supervisory auditor for changes to audit steps.</p>	
<p>d. If a time limit has been specified to complete the audit, and if turnaround time is inadequate and cannot be extended, the auditor should:</p>	
<p>(1) Issue a qualified report for the PCO advising him/her that the audit effort is continuing.</p>	
<p>(2) Alert the ACO and Buying Office of significant findings resulting from this continuing audit effort. Issue supplemental report(s) confirming these findings until it is clear that reporting the findings can have no further impact on the outcome of the negotiations.</p>	
<p>2. Determine status of DD Form 254 from the RFP. If it does not exist, or if the classified portion is not audit related, proceed with audit. If classified information must be placed in the audit file, proceed as instructed by your supervisor or the FAO Security Monitor. If the audit report will contain classified information, review CAM 10-203.11 and 10-205.2.</p>	
<p>3. For solicitations and contracts requiring contractor registration in the Central Contractor Registration (CCR) database (DFARS 252.204-7004 for DoD awards and NASA FAR Supplement 1804.7402 for</p>	

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NASA awards), verify that the contractor is registered in the CCR database. If the contractor is required to register in the CCR database, but does not have an active registration, note this fact in the audit report (CAM 9-102.2c).	
4. Review of Proposal Package:	
a. Perform mathematical verification of the price proposal and support data. Reconcile proposal to support.	
b. Review permanent audit files and prior audit files to ascertain nature and extent of prior audit(s), adequacy of contractor's internal controls, estimating practices, and to gain insight into problem areas for consideration in developing detailed steps.	
c. Prepare/Update accounting and/or estimating system survey under a separate assignment(s), using the appropriate electronic audit package(s).	
d. If required, perform a MAAR 6 labor review and a purchases verification (MAAR 13) under separate assignments.	
5. Consider the use of statistical sampling (CAM Appendix B), improvement curve (CAM Appendix F), graphic analysis (CAM Appendix E), regression analysis, and other techniques in the review of labor hours and direct materials.	
6. Consider CAS Implications:	
a. Refer to the contractor's Disclosure Statement and the results of prior reviews. Perform selective tests, as appropriate, to ascertain that accounting for significant cost elements in the proposal is consistent with established/disclosed practices and complies with the cost accounting standards and FAR 31.	
b. A CAS compliance review should be accomplished for the standards identified by your supervisor (see electronic audit packages for such reviews). If noncompliance with a CAS provision would have no significant impact on Government contract costs, do not test whether the contractor is complying with the provisions. Document your reasoning.	
c. Coordinate with your supervisor for possible audit extension and issuance of separate assignment number for a noncompliance report if positive noncompliance situations are indicated.	
d. Document CAS reviews performed and post to permanent file.	
7. Consider the product and processes.	
a. Review the description in the permanent file. Identify the changes, which have taken place since the process was last reviewed and update the description as necessary.	

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b. Perform necessary observation or review to gain understanding and insight into the contractor's product and operations. This data may be available in the permanent file. As feasible and applicable, accomplish the following:	
c. View the contract item(s). If the item is not available, request contractor to show a similar item. As an alternative, view drawings or blueprints for the item and document working papers as appropriate.	
d. Request an escorted plant tour to:	
(1) View and obtain description of operational processes (preferably in sequential order) or the product.	
(2) View other general operational areas and activities.	
(3) Prepare in narrative form general observations and insights. If observations would significantly affect costs proposed, immediately coordinate with your supervisor for go/no-go discussion and possible audit approaches.	
(4) Place a copy of your observations in the Permanent File.	
8. Consider the contractor's accounting system and internal controls, particularly as they relate to the cost elements proposed.	
a. If the contractor is classified as "major" or if the contractor is a non-major and an ICAPS has been prepared review the Internal Control Audit Planning Summaries (ICAPS) to determine if any internal control deficiencies have been identified that impact this audit (W/P B-2).	
b. Otherwise, review the Internal Control Questionnaire (ICQ) and document the results from this review (W/P B-2).	
c. Review the permanent files and prior audits to obtain background information and knowledge of prior audit findings. Document the extent of this review, and its results, if any.	
d. If extensive use was made of prior history, add appropriate audit steps to verify the reliability of such data.	
e. Ascertain whether the contractor maintains a subsidiary cost ledger (controlled by general ledger) which segregates and accumulates cost by contract.	
f. Ascertain whether the accounting system provides data that can be used in the price evaluation, i.e., job order costs, line item costs, product costs, memorandum records, etc.	
g. Determine whether the accounting system provides the appropriate identification of unallowable costs (CAS 405).	

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h. At "No Annual Dollar Volume" contractors having at least five pricing assignments per year with an aggregate dollar volume of at least \$20 million, time code 26000 should be used for a separate assignment to establish and maintain contractor permanent files.	
9. Consider the form and substance of the contractor's business organization.	
a. Read CAM 7-1800.	
b. Determine the need for a CAS Disclosure Statement in accordance with CAM 7-1810.	
c. Determine the actual relationship between the contracting organizations using the criteria in CAM 7-1807.	
d. Determine if the contractor is proposing to and/or is accumulating and allocating costs consistent with the actual relationship, e.g., if the actual relationship more closely resembles that of a prime contractor-subcontractor then costs should be allocated consistent with this type relationship.	
10. In planning and performing the examination, review the fraud risk indicators specific to forward pricing. The principal sources for the applicable fraud risk indicators are:	
<ul style="list-style-type: none"> Handbook on Fraud Indicators for Contract Auditors, Section III (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and 	
<ul style="list-style-type: none"> CAM Figure 4-7-3. 	
Document in working paper B, section 4 any identified fraud risk indicators and your response/actions to those identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B, section 4.	
11. Using the information obtained from completing steps 1-10 above, complete the initial risk assessment on W/P B.	
a. Based on the initial risk assessment and the request for audit, establish the scope of audit and determine the initial budgeted hours.	
b. Discuss the initial risk assessment, scope assessment and initial budgeted hours with the supervisor and obtain approval.	
c. Considering our assessed level of risk, discuss with the contracting officer the appropriate level of service to be provided if it differs from the contracting officer's needs and the nature and type of cost information requested by the contracting officer in support of the	

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part of the proposal to be audited, i.e., an application of agreed-upon procedures or a request for specific cost information. If there is no resolution with the contracting officer, the PLAs can provide assistance (CAM 9-103.1d. and 9-207d.).	
12. Arrange and conduct an entrance conference with the contractor personnel responsible for the proposal.	
a. Obtain all supporting data necessary for performance of the review. Ask the contractor if the supporting data is available in an electronic format and obtain it in an electronic format, if possible. If the data supporting the proposal are not sufficiently detailed or are not made readily available to enable the auditor to perform the review, or if the contractor is uncooperative, contact your supervisor and notify the requester immediately to advise them of this condition.	
b. If contract effort has begun, request actual costs and committed costs (purchase orders, etc.).	
c. Make sufficient inquiries concerning the mechanics of the proposed amounts to fully understand the basis of the contractor's proposal.	
(1) Is the proposal prepared in accordance with contractor's established estimating and accounting practices?	
(2) Are proposed rates supported by appropriate budgetary data?	
d. If a subcontract, advise the subcontractor that the audit report may be furnished to the prime or upper-tier subcontractor. Obtain the subcontractor's written consent for release of audit report or reason(s) for not authorizing release. If there are restrictions to the release of data to the prime, ask the contracting officer whether the audit should be continued under the circumstances.	

D-1	Summary of Direct Labor Costs	WP Reference
Version 3.0, dated April 2004		
1.	Identify the results in the audit of labor rates and labor hours in working papers E, F, G, and/or H.	
2.	Summarize audit findings. As appropriate, where both labor rates and hours have been questioned prepare schedules which calculate the questioned labor costs.	

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E-1	Direct Labor Rates - Bidding Rates	WP Reference
Version 3.0, dated April 2004		
1.	Trace labor rates proposed to established bidding rates. If the RFP requires that the contractor bid categories other than those established:	
a.	Ascertain that this has been fully disclosed to the requester.	
b.	Comment on potential CAS 401 noncompliance and advise requester that labor records will not be maintained in the manner proposed unless the contract so specifies.	
2.	Obtain and verify the proposed midpoint of effort computations.	

E-1	Direct Labor Rates - No Bidding Rates	WP Reference
Version 3.0, dated April 2004		
1.	Ascertain basis for the proposed rates.	
2.	Evaluate escalation factors and the reasonableness of current compensation considering history, geographical area, and DRI projections (DCAAP 7641.74).	
3.	Obtain and verify the proposed midpoint of effort and escalation computations.	
4.	Compare proposed base labor rates with one or more of the following:	
a.	Current actual rates.	
b.	Appropriate Wage Board rates.	
c.	Signed employment agreements.	
d.	Prior rates of proposed new hires, especially when a GOCO-type contract is to be renegotiated.	
5.	Labor categories:	
a.	Determine whether proposed labor categories are consistent with labor categories used in accumulating and reporting actual labor cost (CAS 401).	
b.	Determine that weightings are appropriately prepared.	
c.	Compare the total weighted average of the bid rates with the actual average of the direct labor base. A significant difference may require adjustment of the bid rates to reflect the contractor's direct labor utilization experience (CAM 9-505.4).	
6.	If category average rates are proposed, refer to CAM 9-505.2.	

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7. Consider impact of expanding or contracting work force (i.e. new hires).	
8. Verify that uncompensated overtime hours are accounted for in accordance with CAM 6-410.	

F-1	Direct Labor Hours - Manufacturing No History	WP Reference
Version 3.0, dated April 2004		
1.	Ascertain basis for the proposed hours.	
2.	Consider the possibility of concurrent production of the current order with other existing or contemplated orders, which would eliminate the need for additional time.	
3.	If this is a follow-on procurement, apply improvement curve techniques (CAM Appendix F.)	

F-1	Direct Labor Hours - Manufacturing With History	WP Reference
Version 3.0, dated April 2004		
1.	Ascertain basis for the proposed hours.	
2.	If proposed hours are based on prior history and labor controls have not been previously reviewed, verify that such controls result in reliable cost data suitable for estimating follow on effort.	
3.	Consider the possibility of concurrent production of the current order with other existing or contemplated orders, which would eliminate the need for additional time.	
4.	If this is a follow-on procurement, apply improvement curve techniques (CAM Appendix F.)	
5.	If historical hours are available:	
	a. Verify cost data currency and accuracy.	
	b. Compare experienced hours with those proposed. Obtain contractor's explanations for significant differences (including skill mix differences).	
	c. Does application of Improvement Curve Technique apply? (CAM Appendix F)	
	d. Is all non-recurring effort and other non-representative data eliminated from projections?	

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e. Determine if the cost data are still applicable to the proposed effort, or have technological or other changes taken place to render it invalid. Coordinate this step with technical representatives.	
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F-1	Direct Labor Hours - Non-Manufacturing	WP Reference
Version 3.0, dated April 2004		
Because this is not a manufacturing application, labor hours cannot readily be evaluated through improvement curve techniques. Discuss evaluation of hours with your supervisor. Add supplemental steps where appropriate.		
Where historical hours are not available or usable:		
1. Coordinate with Government technical personnel to decide areas to be covered.		
2. Review operation time sheets (or similar documents) which support the proposed hours. <ul style="list-style-type: none"> • Determine that operation time sheets reflect current shop method, production planning data, and the most current time studies (or standards.) • Verify that direct labor proposed does not include operations which will be recorded as indirect labor (CAS 401 and 402). • Ascertain whether provisions for contingencies are included in the proposed hours. Qualify or question in report, as appropriate. 		

G-1	Standard Labor Hours - Not Evaluated Or Adequate	WP Reference
Version 3.0, dated April 2004		
The contractor has estimated standard labor hours. The Government either has not reviewed the standards or has reviewed them and found them less than fully adequate. If the standards are determined inadequate, the auditor must determine if the reasons for the inadequacy apply to this proposal, and if so, may have to qualify the report opinion.		
1. Determine what the contractor has used to develop standard hours.		
2. If the Government reviewed the standards, and Government alternative positions were computed, determine if the Government positions are still valid and compute labor hours using the alternative Government standards.		
3. If the standards are partially or fully inadequate, the report must be		

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qualified unless time pen-nits a full evaluation and validation. Consult your supervisor.	
4. If the contractor has changed the method of computing standards, obtain and validate computations of the impact of the change.	
5. Were productivity factors developed from comparable data (same or similar product)? If not, technical assistance is required to determine whether the factors are valid.	
6. If factors are comparable, further validate their appropriateness by examining documentation supporting the labor cost buildup for components. <ul style="list-style-type: none"> • Are routings comparable? • Were adjustment factors used? (If so, factors probably are not appropriate. Get technical assistance.) • Are computations accurate? 	

G-1	Standard Labor Hours - Evaluated	WP Reference
Version 3.0, dated April 2004		
The contractor has estimated labor hours via engineering labor standards. The Government through prior audit and/or technical evaluation has reviewed the standards, with no exceptions noted. Verify that there has been no change to the standards since they were approved.		
1. If the contractor has changed the method of computing standards, obtain and validate computations of the impact of the change.		
2. Were productivity factors developed from comparable data (same or similar product)? If not, technical assistance is required to determine whether the factors are valid.		
3. If factors are comparable, further validate their appropriateness by examining documentation supporting the labor cost buildup for components. <ul style="list-style-type: none"> • Are routings comparable? • Were adjustment factors used? (If so, factors probably are not appropriate. Get technical assistance.) • Are computations accurate? 		

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H-1	Direct Labor Hours - Labor Mix	WP Reference
Version 3.0, dated April 2004		
If the resulting contract will be T&M or fixed price, the auditor should attempt to evaluate the qualitative aspects of labor proposed. Requisite labor skills should have been identified in the RFP.		
1. If the contract is a follow-on to an existing contract at this location, Compare the proposed labor mix to the present actuals.		
2. If the contract is a recompetition of an existing contract at a location under the cognizance of another FAO, request appropriate assistance.		
3. If the contract is for new work, compare the proposed labor mix to the present mix in the organizational unit, which will perform the work.		
4. If the contract is to be performed by new hires, review the RFP to identify the labor skills required.		
a. If these are Wage Board categories, obtain the appropriate Wage Board Determinations (WBD) from the RFP/requestor/Dep't. of Labor for the place of performance and categories.		
b. If these are professionals, it is sometimes possible to obtain prevailing salary data from the appropriate professional society.		

M-1	Direct Material - Limited	WP Reference
Version 3.0, dated April 2004		
1. Determine the contractor's rationale in estimating kinds and quantities of material.		
2. Evaluate the contractor's method for pricing the proposed material requirements.		
3. Analyze and assess any additive factors used by the contractor to estimate various types of material (CAS 401, Interpretation 1).		

M-1	Direct Material - Significant	WP Reference
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1. Determine the contractor's rationale in estimating kinds and quantities of material.	
a. Review the basic requirements sheets and bill of material. Discuss with contractor if the proposal is for a new type of effort. Review drawings, prints, etc., and ask contractor to identify specific proposed parts to the drawings.	
b. Review material requirements if the proposed effort is currently in process, or if it is similar or identical to their existing or past work.	
(1) Analyze on a selective basis certain established bills of materials (BOM) to determine if quantities proposed are the same as for prior work.	
(2) Review drawings for current proposal to determine that BOMs are identified to drawings.	
(3) Trace (selectively) the proposed quantities to the various BOMs if contractor prepares a parts population.	
(4) Ascertain whether surplus inventories generated under other contracts for similar end items have been screened for possible use on contemplated work. Determine cost at which they should be included.	
2. Evaluate the contractor's method for pricing the proposed material requirements.	
a. Determine basis for judgment, i.e., similarity of parts to existing catalog, P.O. or other price data engineers' recollection of prior prices if pricing is based on judgmental estimates only.	
b. Determine whether the contractor has prepared a completed or partial parts population.	
c. Review proposed unit prices and evaluate their validity. Use statistical sampling wherever appropriate.	
(1) If statistical sampling is not used, explain why? (CAM 4-605 a)	
(2) If statistical sampling is used, design a sampling plan. Your plan should (1) clearly state audit objective, (2) describe the universe, (3) describe sampling frame, (4) reconcile universe with sampling frame, (5) select sampling approach, (6) develop reliability goals, (7) establish sample size, (8) describe sample selection method, and (9) identify software program to evaluate the sample. (CAM Appendix B and DCAAP 7641.91)	
(3) If pricing is based on current and/or prior purchase order, determine and/or compare:	

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<ul style="list-style-type: none"> • quantities proposed to quantities previously acquired, • date of last purchase order and validity of its use on current acquisition • economic changes since P.O. was issued, if any • escalation factors(s) added to raw P.O. prices, and • possibility of securing better pricing. 	
<p>(4) If pricing is based on vendor quotes:</p> <ul style="list-style-type: none"> • secure copies for review • consider developing a decrement factor • ascertain that competitive bids were solicited. 	
<p>(5) If prices are based on catalog or other vendor data, evaluate the data:</p> <ul style="list-style-type: none"> • how old, and • possible trade discounts. 	
d. For material used on multiple contracts, determine whether contractor has considered combining buys wherever possible in order to obtain a lower price.	
e. Review RFP for directed use of Government furnished or surplus materials. Has contractor considered such use?	
3. Analyze and assess any additive factors used by the contractor to estimate various types of material (CAS 401, Interpretation 1).	
4. Verify that the contractor obtained competitive quotations.	
5. Where applicable, verify that prior vendors of the proposed materials were solicited for quotations.	
6. Project sample results to universe and appraise sample results.	
7. Summarize audit results.	

M-1	Direct Material – Similar Items	WP Reference
Version 3.0, dated April 2004		
1.	Determine the contractor's rationale in estimating kinds and quantities of material.	
a.	Review the basic requirements sheets and bill of material. Review drawings, prints, etc., and ask contractor to identify specific	

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proposed parts to the drawings.	
b. Review material requirements if the proposed effort is currently in process, or if it is similar or identical to their existing or past work.	
2. Evaluate the contractor's method for pricing the proposed material requirements.	
a. Determine basis for judgment, i.e., similarity of parts to existing catalog, P.O. or other price data engineers' recollection of prior prices if pricing is based on judgmental estimates only.	
b. Determine whether the contractor has prepared a completed or partial parts population.	
c. Review proposed unit prices and evaluate their validity. Use statistical sampling wherever appropriate.	
(1) If statistical sampling is not used, explain why? (CAM 4-605 a)	
(2) If statistical sampling is used, design a sampling plan. Your plan should (1) clearly state audit objective, (2) describe the universe, (3) describe sampling frame, (4) reconcile universe with sampling frame, (5) select sampling approach, (6) develop reliability goals, (7) establish sample size, (8) describe sample selection method, and (9) identify software program to evaluate the sample. (CAM Appendix B and DCAAP 7641.91)	
d. For material used on multiple contracts, determine whether contractor has considered combining buys wherever possible in order to obtain a lower price.	
e. Review RFP for directed use of Government furnished or surplus materials. Has contractor considered such use?	
3. Analyze and assess any additive factors used by the contractor to estimate various types of material (CAS 401, Interpretation 1).	
4. Summarize audit results.	

N-1	Indirect Rates - Bidding Rates	WP Reference
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1.	Verify that the contractor's current bidding rates have been applied to the correct bases.	
2.	Verify computations.	

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N-1	Indirect Rates - No Bidding Rates	WP Reference
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1.	Obtain and review the contractor's support (forecast) for the proposed period of performance..	
2.	Ensure that the proposed rates periods coincide with the contractor's fiscal year or historical rate period (CAS 406).	
3.	Review the proposed rates: <ul style="list-style-type: none"> • Compare to prior years. • Give consideration to unallowable costs (CAS 405), planned plant expansion, changes in sales volume, etc. • Use regression analysis when appropriate. (CAM Appendix E.) 	
4.	For detailed reviews of overhead rates and additional audit steps, see separate audit program and referenced CAM guidance.	

N-1	Indirect Rates - Volume Increase	WP Reference
Version 3.0, dated April 2004		
1.	Ensure that the proposed rates periods coincide with the contractor's fiscal year or historical rate period (CAS 406).	
2.	Calculate the impact of annual volume increases on the contractor's bases and pools. The following considerations may assist you: <ul style="list-style-type: none"> • Fringe benefit costs ordinarily vary directly with direct labor. • Among overhead costs, indirect labor ordinarily varies directly with direct labor, while other overhead expense is usually either fixed or step-variable. • G&A expense changes very little with changes in volume. 	
3.	Calculate the revised rates. If appropriate, request that the contractor revise the submission accordingly.	
4.	Verify that the contractor's bidding rates have been applied to the correct bases within the proposal.	
5.	Recalculate or verify computations of indirect expense allocable to this proposal.	

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O-1	Other Direct Cost - Not Significant	WP Reference
Version 3.0, dated April 2004		
1.	Other Direct Costs. The ODCs have been assessed as low. The amounts should be reviewed for unusual features, primarily misclassification, non-recurring items, unusual consultant requirements and high dollar items. If none of these are present, the review will normally be terminated at this point.	

O-1	Other Direct Cost - Significant	WP Reference
Version 3.0, dated April 2004		
1.	Travel (CAM 9-605.4)	
	a. Determine number of trips and solicit justification for the trips.	
	b. Determine and evaluate the basis for the rates.	
2.	Reproduction Unless the contractor can show that it is unable to hire temporary staff, extensive use of such staffing should ordinarily be questioned as unreasonable.	
3.	Computer Services	
	a. Determine the types and quantities of services.	
	b. Determine contractor's rationale in estimating computer requirements. <ul style="list-style-type: none"> • specifically requested in RFP • contractor's own determination • other. 	
4.	Consultants. Review of consultant costs depends in part on the RFP and proposal specifications. In general, the contractor should propose consultants only when a limited number of hours of highly specialized skills are required and such skills are not available in the contractor's workforce. Occasionally the contractor will propose temporary clerical services from an agency. Such effort is not properly classified as an ODC since such personnel receive direct supervision and other benefits such as occupancy cost properly allocable from the overhead pool(s).	
	a. Does the RFP or proposal specify exactly what contribution the consultant is expected to make?	

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b. Has a consultant agreement been prepared which specifies the services to be provided, the consultant's point of contact, the rate of compensation and the required timekeeping documentation?	
c. Is the agreement adequate?	
d. Evaluate the proposed rate of compensation. Evidence may include the consultant's compensation while performing other work for this contractor or other contractors, the prevailing cost of such services in the area, the proposed consultant's level of education and total experience in the field of expertise, etc.	
e. If temporary clerical services are required, examine the contractor's rationale for using an agency and the proposed inclusion or exclusion of such costs from the overhead allocation base. Ordinarily such staff differs very little from the contractor's in-house personnel except that overhead and profit are being paid to an outside entity.	
5. ODCs should also be reviewed for unusual features such as misclassifications (Direct vs. indirect – CAS 402), start-up costs (CAM 9-605.7), non-recurring costs on FMS (CAM 9-605.8), special tooling (CAM 9-605.2) and high dollar items.	
6. Other. Determine and evaluate basis of proposed costs.	
a. Determine the types and quantities of services proposed.	
b. Obtain explanations and/or other information supporting the requirements from contractor personnel.	
c. Determine and evaluate the basis for the rates.	

S-1	Subcontracts	WP Reference
Version 3.0, dated April 2004		
Subcontracts (CAM 9-104 and 9-406) and Intracompany Work Orders (CAM 9-105)		
1.	Verify that the proposed subcontractor was selected through adequate source competition or that appropriate sole source justification exists.	
2.	Verify that costs have been evaluated by the prime contractor in accordance with DAR 3-807.4(f), FAR 15.806. If appropriate, use historical negotiation reduction factors.	
3.	Evaluate any make-or-buy decisions.	
4.	If the prime contractor has not evaluated the subcontractor proposals or the prime contractor's reviews are not considered adequate,	

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<p>determine whether an assist audit has been requested by the ACO or PCO. If an assist audit is necessary and will not be requested by the ACO/PCO, the prime auditor will prepare and address the request to the prime contractor ACO, with a copy sent to the assist auditor. Include a copy of the subcontractor's proposal with the assist auditor's request copy. (See CAM 9-104.5 concerning telephone notification, CAM 10-304.8d concerning unresolved costs, and CAM 10.308.2 concerning subcontracts for which contractors have not completed cost analyses.)</p>	
<p>5. (Insert specific supplemental steps for work order reviews at this location.)</p>	

T-1	Cost Of Money - Approved Rates	WP Reference
Version 3.0, dated April 2004		
<p>1. Review the proposed COM rates and factors to determine whether the correct bases and rates, including the imputed interest rates, have been used. Verify all computations.</p>		

T-1	Cost Of Money - Rates Not Approved Or Evaluated	WP Reference
Version 3.0, dated April 2004		
<p>1. If the submission appears to be adequate but has not been reviewed, it must be evaluated under a separate assignment.</p>		
<p>2. If the submission is inadequate, the contractor must correct the deficiencies before it can be reviewed. A revised submission should have been requested during the entrance conference.</p>		
<p>3. If the submission has been reviewed and is awaiting ACO action, verify that the computed values are current and advise the ACO that his decision is required in order to avoid a report qualification.</p>		
<p>4. In reviewing the contractor's CASB/CMF submission, verify that costs are properly classified for purposes of arriving at a profit objective via the Weighted Guidelines method or other structured approach (DFARS subpart 15.404-4 - Profit). Regardless of the pool, which the imputed costs flow, profit on COM is not allowable on land, is allowable on buildings, and attains its highest value on equipment. The contractor must identify the composition of the COM base(s) by type of asset.</p>		

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T-1	Cost Of Money - Rates Not Evaluated	WP Reference
Version 3.0, dated April 2004		
1.	Evaluate COM proposed and calculated on SF DD-1861 or the equivalent. Verify that the bases, rates and pools are consistent with the current CASB/CMF submission and that amounts are properly classified for arriving at a profit/fee objective via the Weighted Guidelines method. (CAM 9-902)	
2.	Request that the contractor revise the CASB/CMF computations as necessary to reflect any adjustment to bases arising from increased volume and/or pools for any additional assets attributable to award of this proposal. Verify or recalculate as necessary.	
3.	Recalculate the COM allocable to this proposal, using the adjusted rates.	

A-1	Concluding Steps	WP Reference
Version 3.0, dated April 2004		
1.	If the anticipated report issuance date will extend beyond the previously established due date, ensure the report due date has been appropriately extended (CAM 10-103.1c).	
2.	Summarize audit finding on lead schedules. Include the results of testing for compliance with CAS 401, 402, 405, 406 and any other applicable standards reviewed during this audit.	
3.	Discuss audit findings with supervisor.	
4.	Arrange and conduct an exit conference with contractor representative in accordance with procedures specified in CAM 4-300.	
5.	Provide verbal results of audit to requester if necessary.	
6.	Review technical evaluation and translate exceptions into dollars. Coordinate any inconsistencies between the tech and our audit with the issuing officer prior to report release.	
7.	Many major Government contracts contain clauses requiring an approved Earned Value Management System (EVMS) for performance measurement on selected acquisitions (11-200). On proposals expected to result in contracts covered by DFARS clause 252.234-7001, EVMS, or DFARS clause 252.242-7005, Cost/Schedule Status Report, when a contractor has proposed to use a previously accepted EVMS, the auditor should provide comments on	

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<p>any deficiencies that are affecting the EVMS on other contracts. These comments should include the impact of other contractor system deficiencies (such as those disclosed during audits of material management and accounting systems, labor, other accounting systems, budgets, and billing systems) that are being reported in EVMS surveillance reports (11-209). Provide the comments in the applicable note or an appendix to the proposal audit report (see 10-307 and 10-308).</p>	
<p>8. Draft audit report in accordance with CAM 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 drafting the report.</p>	
<p>9. Complete the administrative workpapers and review "most often overlooked" steps:</p>	
<p>a. Post actual hours to audit working paper sections.</p>	
<p>b. Post appropriate data to DMIS input.</p>	
<p>c. Verify that the report distribution, including "TO/THRU", Procurement Liaison, etc. is complete and consistent.</p>	
<p>d. Obtain subcontractor's release (or contractor's statement that data may not be released to the prime contractor) and place the appropriate statement on the report title page.</p>	
<p>e. Verify that findings of all special purpose steps are included in the report.</p>	
<p>10. Update permanent file. If the results of this audit identified any need to change the risk assessments summarized on ICAPS (or the ICQ for years 1994 and prior), discuss these matters with the supervisory auditor/FAO manager before making any changes.</p>	
<p>11. 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).</p>	
<p>12. 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).</p>	
<p>13. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:</p>	

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<p>a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.</p>	
<p>b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.</p>	
<p>c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.</p>	
<p>d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.</p>	
<p>e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.</p>	
<p>f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.</p>	
<p>g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to</p>	

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<p>the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.</p>	
<p>h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.</p>	
<p>i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.</p>	
<p>j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.</p>	
<p>k. Securely enclose the "backup" set of electronic files (CD) and any "official" set of hard copy in the hard copy folder.</p>	
<p>l. File the "official" set of electronic files in iRIMS (see iRIMS User Guide).</p>	
<p>m. <u>Do Not File Sensitive Audits in iRIMS:</u> Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.</p>	