

Master Document – Audit Program

Activity Code	Postaward Audit
Version 7.0, dated August 2011	
B-1	Planning Considerations
Purpose and Scope	
<p>This standard audit program assists the auditor in planning and performing a post award audit to determine if a negotiated contract price was increased by a significant amount because the contractor did not submit or disclose accurate, complete, and current cost or pricing data. The audit program steps should be tailored as appropriate.</p>	
<p>Planning Considerations</p>	
<p>1. Ensure the potential contract action selected through the Postaward Audit Selection System (PASS) warrants the initiation of detailed audit procedures based on risk. In most cases, DCAA has limited knowledge of the pricing actions as well as the actual contract negotiations, and therefore, must perform preliminary steps to better define the risk of defective pricing of the potential pricing actions selected through the PASS as part of requirements/program planning.</p>	
<p>2. Accomplish a detailed risk assessment to determine if the subject pricing action covered by 10 U.S.C. 2306a (known as the "Truth in Negotiations Act" (TINA)) or 41 U.S.C. 3502 is a suitable selection for postaward audit.</p>	
<p>3. Once it has been determined to proceed with a detailed postaward audit based upon preliminary/detailed risk assessment procedures:</p>	
<p>a. Determine whether individual covered contracts are in compliance with 10 U.S.C. 2306a or 41 U.S.C. 3502 (similar provisions applicable for executive agencies other than DoD, NASA, and the U.S. Coast Guard). See CAM Section 14-103.1 to determine the appropriate U.S.C. citation.</p>	
<p>b. Recommend contract price adjustments to cognizant contracting officers if contracts are not in compliance with TINA. To determine noncompliance, the audit team must design procedures to establish that:</p>	
<p>1) The information in question fits the definition of cost or pricing data.</p>	
<p>2) Accurate, complete, and current data existed and were reasonably available to the contractor before the agreement on price or another date agreed upon by the parties.</p>	
<p>3) Accurate, complete, and current data were not submitted or disclosed to the contracting officer or one of the designated representatives of the contracting officer and that these individuals did not have actual knowledge of such data or its significance to the proposal.</p>	

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4) The Government relied on the defective data in negotiating with the contractor.
5) The Government's reliance on the defective data caused an increase in the contract price.
4. The audit team is expected to exercise professional judgment, considering vulnerability and materiality, in determining the scope of audit.
a. This program is intended to provide a logical sequence to the audit effort and to reflect a mutual understanding among the audit team as to the scope required to meet auditing standards and DCAA objectives for the current assignment.
b. The detailed audit steps are intended to be general guidance and should be expanded or eliminated as necessary to fit the current audit (CAM 3-103).
c. Include audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, abuse, or illegal acts that are material (CAM 4-702).
References
1. CAM 14-100 Postaward Audits of Contractor Cost or Pricing Data
2. CAM 10-600 Audit Reports on Postaward Audits of Cost or Pricing Data
3. CAM 4-304.3 Postaward Audits of Cost or Pricing Data for Possible Defective Pricing
4. CAM 2-102 AICPA Attestation Standards
5. CAM 2-302 Field Work Standards
6. CAM Appendix D, "Technical Specialist Assistance"

B-1	Preliminary Steps	WP Reference
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1.	Confirm the following:	
a.	The contract includes (or should include) the contract clauses entitled Price Reduction for Defective Cost or Pricing Data which are in FAR 52.215-10, 11, 12, and 13. If the clauses are not in the contract, contact the CO to determine if the contract is a negotiated procurement and subject to the defective pricing clauses. <i>Absence of the price reduction clause in a contract that requires such a clause does not prevent the Government from performing a post award audit for defective pricing (the so-called "Christian doctrine"). (CAM 14-112.1)</i>	
b.	The Government relied on the cost or pricing data used in	

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<p>negotiating the contract. To determine this information, obtain a copy of the PNM and determine if it includes a reliance statement. If the PNM is not available in the office, obtain a copy from the contracting officer. If there is no reliance statement in the PNM, contact the contracting officer to discuss and determine if the Government relied on the cost or pricing data. In either case, if the Government did rely on the cost or pricing data, have the CO provide this statement in writing. If the PNM is not readily available, request assistance from the FLA (CAM 14-115). <i>The purpose of the confirmation is to ensure that if defective pricing is identified during the audit that we will be able to establish defective pricing on the part of the contractor as Government reliance is a necessary condition for obtaining a price adjustment.</i></p>	
<p>c. If the pricing action is a subcontract, contact the prime contract auditor and obtain evidence to determine the following:</p> <ol style="list-style-type: none"> 1) The prime contract contains the contract clauses entitled Price Reduction for Defective Cost or Pricing Data which are in FAR 52.215-12 and 13. 2) If the Government and prime contractor relied on the subcontractor cost or pricing data. 	
<p>2. Ascertain whether to postpone the audit if a significant amount of costs have not been incurred by the contractor (request the contractor provide the actual costs incurred plus an estimate at completion on the pricing action). <i>Use 50 percent complete as a guide in determining significance of incurred costs. In addition, determine that the EAC is reliable and not just a mathematical equation of the negotiated costs less actual costs.</i></p>	
<p>3. If it is determined that the pricing action is not subject to TINA, document the basis for this determination and confirm with the contracting officer. Prepare a memorandum for file (MFF) summarizing the basis for this determination and terminate the assignment. If this is a discretionary selection, it should be replaced with another selection. If the pricing action is determined to be subject to TINA, continue with the Preliminary Steps/Risk Assessment.</p>	
<p>4. Risk Assessment Notifications:</p>	
<p>a. Procuring Contracting Officer:</p> <ol style="list-style-type: none"> 1) If the audit was requested by the contracting officer, another Government organization, or prime DCAA FAO, coordinate with the requester to identify areas of specific concerns and to gain an understanding of why an audit is being requested on this specific contract. The audit should be treated as a customer requested assignment. Acknowledge the audit 	

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<p>request and inform the PCO we will be performing risk assessment procedures to determine the need for a postaward audit. Advise the requester that we will discuss the results of the risk assessment procedures with them to make a determination as to whether or not to proceed with an audit. A formal acknowledgment will be sent after the Risk Assessment/Preliminary Steps have been completed and the results discussed with the requestor. (CAM 4-103).</p> <p>2) If the audit is self-initiated, notify the contracting officer that the subject pricing action has been selected for risk assessment procedures to determine the need for a postaward audit. Request the contracting officer to identify any specific concerns which may have a bearing on the risk assessment.</p> <p><i>A proforma memorandum is contained in W/P 11a.</i></p>	
<p>b. Contractor: Notify the contractor that we will be performing risk assessment procedures and that you will be contacting them to coordinate a date for a walkthrough. Request the contractor provide the following information and any other information deemed necessary:</p> <ul style="list-style-type: none"> • Copies of the contractor's proposal(s), • Identification of significant subcontracts, • Identification of significant inter-organizational transfers (IOT) (includes transfers between divisions, subsidiaries, or affiliates under common control), • Final Certificate of Current Cost or Pricing Data (see CAM 14-107), • Identification of all cost or pricing data submitted before or during negotiations, • A list of additional data submitted after date of agreement on price along with the Certificate of Current Cost or Pricing Data; including cost or pricing data provided to the contracting officer subsequent to the last formal proposal update, and • Costs incurred to date by cost element and estimates at completion (EAC) by cost element. <p><i>A proforma letter is contained in W/P 11b.</i></p>	
<p>5. If the pricing action selected is a subcontract, determine relevant dates for recovery at the prime contract level. <i>Refer to CAM 14-119.3 for guidance on relevant dates and contract type.</i></p>	

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<p>6. Complete the Contract Brief. (See Contract Brief pro forma, W/P B-04 and CAM 3-202.)</p> <ul style="list-style-type: none"> a. Determine if any modifications affect the pricing action (e.g., terminations, restructures, etc.), then consult with the supervisor. If the pricing action is a subcontract, consider modifications to either the prime or subcontract that may affect the pricing action. b. Determine whether modifications identified in the contract brief have been included in the defective pricing universe. If not, then update the universe to include them. c. Determine whether any special clauses, included in section H of the contract, have any impact on the post award audit (e.g., reopener clause). 	
<p>7. Analyze the Government Price Negotiation Memorandum (PNM) and any attached or referenced documents (e.g. pre-negotiation memorandum) (see CAM 14-111 and 14-115) to identify and document areas of potential risk for defective pricing (e.g. no pre-award audit performed, additional cost or pricing data or substantively new proposal provided after pre-award, etc.). If the pricing action is a subcontract, obtain both the PNM between the Government and prime contractor as well as the negotiation memorandum between the prime contractor and the subcontractor.</p>	
<p>8. Based on the data obtained in the steps above, prepare a Chronology of Significant Events. <i>A sample Chronology of Significant Events is included as POST-ChronSigEvent W/P B-05.</i></p>	

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<p>9. Coordinate a date with the contractor to provide a walk-through of its certified position and the major events associated with this pricing action. Invite the Contracting Officer. This should include the following:</p> <ul style="list-style-type: none"> a. Highlighting all significant cost or pricing data provided to the contracting officer (e.g., latest certified proposal plus any subsequent cost or pricing data submitted up to the time of price agreement to include sweep data) to include a discussion of the contractor’s documentation of negotiations. b. A discussion of the contractor’s internal controls in place at the time of negotiations to ensure that the most accurate, complete and current data were disclosed to the Government. c. Have the contractor identify how the costs were accumulated in the accounting system to facilitate a comparison of the actual costs to the proposed/negotiated costs. <i>For example, if the contractor proposed by WBS, have the contractor identify the charge numbers for each WBS. Another example would be if the actual costs were accumulated in more detail than the proposed costs. In this case, the contractor would need to identify how the actual costs roll up to the proposed costs in order to perform an accurate over/underrun test.</i> 	
<p>10. If there are significant subcontract costs, notify the cognizant FAOs of the existence of the identified subcontracts for inclusion in their DP universe.</p>	
<p>11. Materiality, Sensitivity, and Inherent Risk Factors – Document and evaluate the following data and document any potential risk factors identified:</p> <ul style="list-style-type: none"> a. Contract type and its effect on the overall audit approach. b. Dollar value of the pricing action. c. If a preaward audit of the contractor's proposal was performed, evaluate the Defective Pricing Lead Sheet –Part A and use the PNM to complete Part B of the Defective Pricing Lead Sheet. Identify other potential defective pricing leads to help establish the audit scope. d. Review the permanent file to determine how items such as the history of defective pricing, identified defective pricing leads, size and structure of contractor, prior Government contract experience, financial condition, accounting changes, and CAS compliance affect the risk associated with the selected pricing action. 	

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<p>12. Determine an initial audit baseline for the risk assessment phase of the audit in order to determine the materiality of the cost elements and perform the overrun/underrun test in the Step 13. For risk assessment purposes, the initial audit baseline can be determined using the latest proposal, negotiated data, sweep data (if the contractor addresses its significance on the latest proposal or if it was updated for known information from negotiations), etc. <i>A precise baseline calculation is not necessarily required at this time, see note below.</i></p>	
<p>a. Prepare the baseline by cost element and ascertain and document the materiality of the cost elements.</p>	
<p>b. Prepare a baseline by significant sub-elements in order to better determine where the risk of defective pricing exists (e.g. direct labor hours and rates, different material categories, high dollar material parts, subcontracts, IOTs, etc). Use auditor judgment and discuss with audit team (e.g. RAM, Manager, Supervisor, Auditors).</p>	
<p><i>NOTE: Auditors should prepare a more detailed baseline in accordance with CAM 14-116.2 in the detailed audit steps when calculating the recommended price adjustment when defective pricing has been determined.</i></p>	
<p>13. Perform an overrun/underrun analysis using the actual costs incurred and/or a current cost estimate at completion (EAC) compared to the baseline costs by element/sub-element determined in Step 12 above. Use auditor judgment to determine the reliability of this test depending on whether a significant amount of costs have been incurred on the contract to date. <i>Note any reasons for not performing the test (e.g. the contractor does not account for change order costs separately which makes it difficult to perform the test by cost element). (Performing this step by significant sub-elements will better determine the areas of risk.) Consider defective pricing indicators included in CAM 14-117.</i></p> <p><i>NOTE: When the contract is incomplete and the contractor does not provide an EAC, try using other records to perform the tests. Other sources of EAC and contract performance data include, but are not limited to, progress payment requests, EVMS surveillance reports, or the latest contract budgetary data. The lack of current EACs may indicate a deficiency in a contractor system (e.g., billing system) that should be reported using the flash reporting procedures in CAM 10-413.</i></p>	
<p>a. For those areas with significant over or underruns, make inquiries to assess the reasons for the variances. The contractor, contracting officers (ACO's and PCO's) and the COTR (Contracting Officer Technical Representative) may be able to provide a greater understanding of the variances that will assist in developing audit</p>	

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<p>procedures. <i>For example, an underrun in labor may be due to lower labor rates. If the contractor states it is because they had a large number of new hires with lower pay rates, we would establish a detailed audit step to determine when the planned new hires were known.</i></p>	
<p>b. Identify defective pricing leads based on the results of the significant sub-elements overrun/underrun tests.</p> <p><i>Use the information obtained from the overrun/underrun test to develop detailed audit steps or to make a determination that there is a low risk of defective pricing resulting in terminating the assignment in Step 14. Although we are only looking at significant over/underruns at this time to determine our risk, note that if it is determined that we proceed with the audit in Step 14 below, all significant cost elements need to be evaluated based on risk.</i></p>	
<p>14. Discuss the results of the risk assessment steps above including the results of the overrun/underrun test with the audit team to determine if the overall risk for defective pricing is minimal based on the totality of the evidence analyzed. If it is determined that the overall risk is minimal, document the rationale used to make the determination and prepare a memorandum notifying the contracting officer and contractor that the assignment has been terminated. Otherwise, continue with the following Risk Assessment/Preliminary Steps.</p> <p><i>Note: The overrun/underrun test should not be the sole basis for your determination. It is important that all of the risk assessment procedures including coordinating with the contracting officer to identify areas of concern, reviewing the Price Negotiation Memorandum to identify the specific risks with the cost or pricing data relied upon, reviewing any pre-award audits and any audit leads be considered as part of your determination. If it is determined that the pricing action identifies minimal risk (e.g. no audit leads identified, contract significantly overrun, a pre-award audit was performed close to the date of agreement on price) and little potential recovery by the government, we will terminate the engagement.</i></p>	
<p>15. Document your understanding of the relevant contractor internal controls related to the contractor’s proposal on W/P B-02 (e.g., estimating, accounting). Describe the impact of the assessment of control risk on the post award audit for the systems at the time of proposal preparation through the contract certification date.</p>	
<p>16. Hold a planning meeting with the audit team to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the contract action. Document on W/P B, Section 6 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with</p>	

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<p>applicable laws and regulations that could have a material effect on the contract action (i.e., tailor the audit steps). <i>The discussion should include relevant prior audit experience (e.g., recommended pricing adjustments, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities that would present a heightened risk for fraud), other known risk factors, and the audit team’s understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See “Principal Sources of Fraud Indicators” below. Principle Sources of Fraud Indicators:</i></p> <ul style="list-style-type: none"> • <i>Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc.</i> • <i>CAM Figure 4-7-3.</i> <p><i>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.</i></p> <p><i>Communication among audit team members about the risk of material noncompliance due to fraud should continue as needed throughout the audit.)</i></p>	
<p>17. If significant IOT’s were identified in Step 13b, perform an assessment to identify indicators of potential defective pricing at the IOT level. Coordinate with the cognizant DCAA office of the IOT to determine which DCAA office will be responsible for performing the overrun/underrun test at the IOT level. Based on the results of this test and other know risk factors, additional coordination is needed to design audit procedures to review the IOT’s for compliance with TINA. Audit effort required for IOTs will be performed in W/P Section G.</p> <p><i>Note that the date of certification for IOT’s is the date of certification between the division awarded the pricing action and the Government.</i></p>	
<p>18. If significant subcontract costs were identified in Step 13b perform an initial assessment to identify indicators of potential defective pricing at the subcontractor level which would indicate the need to request a subcontract assist audit.</p> <ol style="list-style-type: none"> a. Determine the basis for significant subcontract costs included in the baseline. b. Based on the information obtained during the risk assessment, determine if there are any hard audit leads that indicate potential defective pricing and warrant requesting an assist audit. 	

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<p>Coordinate with the cognizant DCAA office to discuss and determine if an assist audit is warranted. If so, identify the audit leads in the request. Document request on w/p B-03.</p>	
<p>19. Identify those areas that require a request for technical assistance and/or assist audit and document on w/p B-03. If the need for technical assistance and/or assist audits is subsequently identified, B-03 should be modified, as appropriate.</p> <p><i>Assist audit effort may be necessary if documents are kept in a centralized location which your DCAA office may not have cognizance of (e.g. Central purchasing service center audited by another FAO).</i></p> <p><i>An example technical specialist assistance request letter is available at Add\Library Access\Other Audit Guidance\TechSpecDoc.doc.</i></p>	
<p>20. Based on the risk assessment and the information gathered above, tailor the detailed audit steps to design substantive procedures responsive to the assessed risk for those areas selected for review. Generally tests of details should be performed for all significant areas identified in the risk assessment for further evaluation and the extent of that testing should be based on the risk. There must be a clear link between the risk assessment and the audit procedures which should be designed to obtain evidence that is sufficient and appropriate to provide a reasonable basis for the conclusion that will be expressed in the audit report. Discuss with your supervisor (or if appropriate, the audit team) the overall results of the risk assessment and the audit scope planned in response, including the detailed audit steps and document in workpaper A-02.</p> <p>Obtain and document supervisory approval of the risk assessment and the planned scope of examination for each cost element documented in W/P B and -1 W/Ps.</p>	
<p>21. Audit Notifications:</p>	
<p>a. Prepare and send a formal acknowledgment memorandum to the Contracting Officer that the compliance audit will be performed.</p> <p><i>A proforma memorandum is contained in W/P 11c.</i></p>	
<p>b. Issue an engagement letter to the contractor that the compliance audit of the pricing action will be performed.</p> <p><i>A proforma letter is contained in W/P 11d.</i></p>	
<p>c. Arrange and conduct a formal entrance conference with both the contractor and the contracting officer.</p>	

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D-1	Direct Labor Rates	WP Reference
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<p><i>Modify the detailed steps below to reflect the appropriate audit scope based on the results of the Risk Assessment/Preliminary Steps and the impact of the contractor’s policies and procedures or other internal controls as documented on working paper B-02. During your evaluation of direct labor rates, consider the indicators of potential defective pricing found in CAM 14-117.</i></p> <p><i>Ensure that working papers include sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p> <p><i>Evaluate the cost or pricing data supporting the contractor’s baseline for direct labor rates.</i></p>		
1.	If necessary, refine overrun/underrun analysis using the baseline and actual direct labor rates incurred by category to determine if significant variances exist.	
2.	If any significant variances exist, determine if there were more current labor rates available that were not disclosed or if the underlying make up of the employees within the labor category changed.	
3.	Compare the baseline direct labor rates to those included in the contractor’s bidding rate submission or rate agreement in effect as of the date of price agreement. Evaluate significant variances to determine the cause and if there was any known data that was not disclosed.	
4.	Analyze the direct rates in effect 90 days after price agreement to determine if there are any new agreements, submissions, etc. which may have been in process prior to price agreement.	
5.	Determine the date and status of union agreements, if applicable, that the baseline direct labor rates were based on, or affected by, as of the date of agreement on price. If there are significant variances and the contractor failed to use the agreed to union rates, determine the rationale and obtain substantive evidence for the rationale.	
6.	Based on the information reviewed in steps 1 through 5, determine if additional cost or pricing data related to labor rates (including Forward Pricing Rate Agreements) was available but not submitted prior to agreement on price.	
7.	Identify and keep separate, potential offsets discovered (CAM 14-118).	
8.	If historical data was used in the cost or pricing data relied upon, perform substantive procedures to provide reasonable assurance the	

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historical data was in compliance with TINA (accurate, complete and current). The substantive procedures may be documented in this assignment or previously completed assignments by reference.	
9. Summarize the results of the direct labor rate review. <i>Ensure that you have sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i>	
10. If defective pricing is found, discuss with the contractor and contracting officer to determine if there is any additional information available that would change the results. If additional data is provided, review the data to determine if it changes your conclusion.	
11. Calculate the recommended price adjustment using a precise baseline of the direct labor rates associated with the labor costs. <i>The working papers must establish the five elements of defective pricing have been met. (CAM 14-102b).</i>	

E-1	Labor Hours	WP Reference
Version 7.0, dated August 2011		
<p><i>Modify the detailed steps below to reflect the appropriate audit scope based on the results of the Risk Assessment/Preliminary Steps and the impact of the contractor’s policies and procedures or other internal controls as documented on working paper B-02. During your evaluation of direct labor hours, consider the indicators of potential defective pricing found in CAM 14-117</i></p> <p><i>Ensure that working papers include sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p> <p><i>Evaluate the cost or pricing data supporting the contractor’s baseline for direct labor hours.</i></p>		
1.	If necessary, refine your overrun/underrun analysis using the baseline labor hours to actual or EAC labor hours at a more detailed level (e.g., by labor category, tasking function, major section of SOW, etc.) to determine if significant variances exist.	
2.	<p>Perform the following steps, if applicable, to determine the rationale for the variances identified in Step 1 and if there was data available that was not disclosed as of the date of agreement on price.</p> <p>a. Determine if the contractor used a different skill mix of employees than proposed.</p> <p>b. Determine if judgment was the basis of estimate. If so, determine</p>	

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<p>if history was available and not disclosed.</p> <p>c. Determine if history was the basis of estimate. If so, determine if the most relevant and current history was made available to the government.</p> <p>d. Determine if labor standards were the basis of the estimate. If so, determine how often the contractor develops and changes its standards and if the most current standards were used as of the date of price agreement. Examine efficiency factors that measure the contractor’s performance against standard. Also examine the standard and support factors for duplication of tasks. <i>For example, the contractor could mistakenly bid twice for packaging or manufacturing support. This happens when a contractor includes a task in a standard and proposes the same task again as a factor applied to the standard hours. Check this duplication by reviewing the contractor's detailed support for its standards.</i></p> <p>e. Determine if Improvement Curves were used as a basis for estimate. If so, determine if the actual hours plotted in the Improvement Curve were current. Determine that all completed production lots were disclosed in the improvement curve; assure that improvement curve included all applicable units (i.e. does not exclude commercial/FMS sales); and all applicable hours from prior contracts were included in the improvement curves. Consider adjustments for any make-or-buy decisions, changes in production methods or engineering design changes that affect the use of prior production hours.</p> <p>f. Determine if the basis of estimate for any labor hours are Cost Estimating Relationships (CERs) or Factors. If so, then review CERs/Factors for duplication of cost and determine that they are current as of the price agreement date.</p>	
<p>3. Identify and keep separate potential offsets discovered (CAM 14-118).</p>	
<p>4. If historical data was used in the cost or pricing data relied upon, perform substantive procedures to provide reasonable assurance the historical data was in compliance with TINA (accurate, complete and current). The substantive procedures may be documented in this assignment or previously completed assignments by reference.</p>	
<p>5. Summarize the results of the direct labor hours evaluation. <i>Ensure that you have sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p>	
<p>6. If defective pricing is found, discuss with the contractor and contracting officer to determine if there is any additional information available that would change the results. If additional data is provided,</p>	

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review the data to determine if it changes your conclusion.	
7. Calculate the recommended price adjustment. Document a precise baseline of the direct labor hours associated with the labor costs to calculate the recommended price adjustment. <i>The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).</i>	

F-1	Material	WP Reference
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<p><i>Modify the detailed steps below to reflect the appropriate audit scope based on the results of the Risk Assessment/Preliminary Steps and the impact of the contractor’s policies and procedures or other internal controls as documented on working paper B-02. During your evaluation of direct material, consider indicators of potential defective pricing found in CAM 14-117.</i></p> <p><i>Ensure that working papers include sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p> <p><i>Evaluate the cost or pricing data supporting the contractor’s baseline for direct material.</i></p>		
1.	If necessary, refine your overrun/underrun analysis using the baseline material amounts/prices to actual or EAC amounts/prices at a more detailed level (e.g., by category of material, tasking function, major section of SOW, part number, etc.) to help focus your review.	
2.	Based on the results above and prior experience with the contractor, select items for evaluation. <i>Items can be selected based on use of statistical sampling or judgmental sampling (such as items of a significant dollar value). Refer to CAM Appendix B-200 and CAM 14-120.5.</i>	
3.	For those items selected for review, compare the baseline unit cost, kind and quantity to the actual unit cost, kind and quantity as shown on the purchase order. Review the purchase order history and the complete buyer’s file to determine if any data existed that was not disclosed to the Government that would cause an increase in the contract price. The following are some example steps that should be considered and tailored for your specific situation:	
a.	If the purchase order was awarded before date of price agreement and the amount was less than the baseline, determine why the	

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<p>contractor did not use the purchase order or if there were any updates that would have changed the price.</p>	
<p>b. If the type and/or quantity of material purchased are different from the type and/or quantity of material included in the baseline, determine reasons for differences and ascertain when the decision to change material types and/or quantities was made.</p>	
<p>c. If there is no consolidated bill of materials, determine if any parts were duplicated resulting in overstated material costs.</p>	
<p>d. If the purchase order was issued within a reasonable period after price agreement and the value was less than the baseline, look at vendor quotations and/or obtain third party confirmation (CAM 14-120.6) to determine whether the contractor was aware of the reduced cost before price agreement.</p> <p>Note that the issuance of a purchase order after price agreement is the culmination of the purchasing process. Purchasing activities may have occurred prior to price agreement.</p>	
<p>e. Evaluate the use of residual material inventory that was not considered in pricing the proposal. (CAM 9-407.2)</p>	
<p>f. Determine the basis of all other material additive rates/factors (material rework, scrap, low dollar material items, etc), if applicable, applied to material costs including intracompany costs. Compare baseline and experienced actual rates/factors (material rework, scrap, etc) and evaluate significant variances for potential defective pricing. Ascertain that any material included in a factor was not also proposed discretely.</p>	
<p>4. Identify and keep separate potential offsets discovered during the audit (CAM 14-118).</p>	
<p>5. If historical data was used in the cost or pricing data relied upon, perform substantive procedures to provide reasonable assurance the historical data was in compliance with TINA (accurate, complete and current). The substantive procedures may be documented in this assignment or previously completed assignments by reference.</p>	
<p>6. Summarize the results of the material evaluation. <i>Ensure that you have sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date. Identify and keep separate potential offsets discovered during the audit (CAM 14-118).</i></p>	
<p>7. If defective pricing is found, discuss with the contractor and contracting officer to determine if there is any additional information available that would change the results. If additional data is provided, review the data to determine if it changes your conclusion.</p>	

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<p>8. Calculate the recommended price adjustment using a precise baseline of the direct material pricing associated with the material costs. <i>The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).</i></p>	
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G-1	Inter-organizational Transfers (IOT)	WP Reference
	Version 7.0, dated August 2011	
	<p><i>Modify the detailed steps below to reflect the appropriate audit scope based on the results of the Risk Assessment/Preliminary Steps and the impact of the contractor’s policies and procedures or other internal controls as documented on working paper B-02. During your evaluation of interorganizational transfers, consider indicators of potential defective pricing found in CAM 14-117.</i></p> <p><i>Ensure that working papers include sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p> <p><i>Evaluate the cost or pricing data supporting the contractor’s baseline for IOT’s.</i></p>	
	<p>1. For significant IOT’s based on price identified in B-01, Step 13b, ensure the requirements of FAR 31.205-26(e) were met:</p> <ul style="list-style-type: none"> a. The established practice of the transferring organization was to price IOT’s at other than cost; b. The item transferred qualified for an exception to the cost or pricing data requirement outlined in FAR 15.403-1(b). 	
	<p>2. For cost based IOT’s selected for review, ensure that profit was excluded from the prime contractor's price (FAR 31.205-26(e)).</p>	
	<p>3. Identify and keep separate potential offsets discovered during the audit (CAM 14-118).</p>	
	<p>4. If historical data was used in the cost or pricing data under review, perform substantive procedures to provide reasonable assurance the historical data was in compliance with TINA (accurate, complete and current). The substantive procedures may be documented in this assignment or previously completed assignments by reference.</p>	
	<p>5. Summarize the results of the IOT evaluation. <i>Ensure that you have sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p>	
	<p>6. If defective pricing is found, discuss with the contractor and contracting officer to determine if there is any additional information</p>	

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available that would change the results. If additional data is provided, review the data to determine if it changes your conclusion.	
7. Calculate the recommended price adjustment using a precise baseline of the direct material pricing associated with the material costs. <i>The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).</i>	

H-1	Subcontracts	WP Reference
Version 7.0, dated August 2011		
<p><i>Modify the detailed steps below to reflect the appropriate audit scope based on the results of the Risk Assessment/Preliminary Steps and the impact of the contractor’s policies and procedures or other internal controls as documented on working paper B-02. During your evaluation of subcontracts, consider indicators of potential defective pricing found in CAM 14-117.</i></p> <p><i>Ensure that working papers include sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p> <p><i>Evaluate the cost or pricing data supporting the contractor’s baseline for subcontracts.</i></p>		
1.	From the detailed over/underrun test in B-01, Step 13b, identify those subcontracts with significant variances for further review.	
2.	Determine the basis of the subcontract costs selected for review and document any potential risk factors based on review of the following: <ol style="list-style-type: none"> a. Information on Subcontractors in the Prime Contractor PNM. b. Subcontractor Analyses performed by the Prime Contractor. c. Prime Contractor negotiation memorandums with the subcontractor. d. DCAA preaward assist audits. 	
3.	Evaluate significant variances identified in the detailed overrun/underrun step in B-01, Step 13b, to determine the cause. Discuss variances with the buyer and review documents in the buyer’s files to determine if the contractor disclosed the most accurate, complete and current data as of the certification date. Information available prior to the certification date and not disclosed may indicate potential defective pricing. Consider the potential for defective pricing at the prime level on each subcontract considering the following:	
	a. Was the prospective subcontract awarded to another	

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subcontractor? (CAM 14-119.4) If so, ascertain why and when the change was made.	
b. Was the prospective subcontract not awarded at all? If so, was the item produced internally or were company engineers used instead of contract labor? If so, when was this decision made?	
c. If a DCAA preaward assist audit was performed, did the prime contractor consider the results of the DCAA assist audit and were the results considered in negotiations with the Government?	
d. If the subcontract was negotiated before prime contract award, did the prime contractor disclose this information before agreement on prime contract price?	
e. If the subcontract was negotiated after award to the prime contractor, did the prime have a subcontract negotiation position and/or a cost analysis review as required by FAR before prime contract negotiations, and if so, was pertinent data disclosed?	
4. Request a subcontract assist audit (if not already done in Section B-01, Step 18) based on any audit leads at the subcontract level identified from the above analysis.	
5. Identify and keep separate potential offsets discovered (CAM 14-118).	
6. If historical data was used in the cost or pricing data under review, perform substantive procedures to provide reasonable assurance the historical data was in compliance with TINA (accurate, complete and current). The substantive procedures may be documented in this assignment or previously completed assignments by reference.	
7. Summarize results of subcontract evaluation. <i>Ensure that you have sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i>	
8. If defective pricing is found, discuss with the contractor and contracting officer to determine if there is any additional information available that would change the results. If additional data is provided, review the data to determine if it changes your conclusion.	
9. Calculate the recommended price adjustment using a precise baseline of the subcontracts. <i>The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).</i>	

I-1	Indirect Rates & Factors	WP Reference
Version 7.0, dated August 2011		
<i>Modify the detailed steps below to reflect the appropriate audit scope</i>		

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<p><i>based on the results of the Risk Assessment/Preliminary Steps and the impact of the contractor’s policies and procedures or other internal controls as documented on working paper B-02. During your evaluation of indirect rates and factors, consider indicators of potential defective pricing found in CAM 14-117.</i></p> <p><i>Ensure that working papers include sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p> <p><i>Evaluate the cost or pricing data supporting the contractor’s baseline for indirect rates and factors.</i></p>	
<p>1. Determine if the basis for the proposed rates and factors is consistent with the contractor's established estimating practices (e.g. indirect costs proposed as direct costs). <i>Deviation from established practices could indicate potential defective pricing.</i></p>	
<p>2. Compare baseline and actual indirect rates, pools, and bases by year to determine if significant variances exist and evaluate significant variances to determine the cause. <i>Significant underruns may exist if this pricing action had a significant impact on the business base and the impact was not disclosed.</i></p>	
<p>3. Compare the baseline rates and factors to those included in the contractor’s bidding rate submission or rate agreement in effect as of the date of price agreement and evaluate significant variances to determine the cause.</p>	
<p>4. Analyze the rates and factors in effect 90 days after price agreement to determine if there are any new agreements, submissions, etc. which may have been in process prior to price agreement.</p>	
<p>5. Determine if the rates (including FPRAs) were updated for relevant data available at the time of price agreement.</p>	
<p>6. Determine if the most current corporate allocations (pension, insurance, and fringe benefit costs, etc.) were disclosed by date of price agreement.</p>	
<p>7. Identify and keep separate potential offsets discovered (CAM 14-118).</p>	
<p>8. If historical data was used in the cost or pricing data under review, perform substantive procedures to provide reasonable assurance the historical data was in compliance with TINA (accurate, complete and current). The substantive procedures may be documented in this assignment or previously completed assignments by reference</p>	
<p>9. Summarize the results of indirect expense evaluation. <i>Ensure that you have sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p>	

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<p>10. If defective pricing is found, discuss with the contractor and contracting officer to determine if there is any additional information available that would change the results. If additional data is provided, review the data to determine if it changes your conclusion.</p>	
<p>11. Calculate the recommended price adjustment using a precise baseline of the rates and factors associated with the indirect costs. <i>The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).</i></p>	

J-1	Other Direct Costs (ODC)	WP Reference
	Version 7.0, dated August 2011	
	<p><i>Modify the detailed steps below to reflect the appropriate audit scope based on the results of the Risk Assessment/Preliminary Steps and the impact of the contractor’s policies and procedures or other internal controls as documented on working paper B-02. During your evaluation of other direct costs, consider indicators of potential defective pricing found in CAM 14-117.</i></p> <p><i>Ensure that working papers include sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i></p> <p><i>Evaluate the cost or pricing data supporting the contractor’s baseline for other direct costs.</i></p>	
	<p>1. If necessary, refine your overrun/underrun analysis by comparing detailed actual costs by category (e.g., travel, consultants) with baseline costs and identify any significant variances.</p>	
	<p>2. Select items with significant variances for review and develop appropriate detailed audit steps. The following are some example detailed audit steps that should be tailored for your specific situation:</p> <ul style="list-style-type: none"> a. Travel – Determine whether the contractor has agreements with rental car firms and/or hotels that provide discounted rates. If so, compare these discounted rates to the contractor’s proposed rates. b. Consultants – Examine services proposed to be performed by the consultant, including the number of consultants and terms of the agreement. Compare this information to actual services performed by consultants. 	
	<p>3. Identify and keep separate potential offsets discovered (CAM 14-118).</p>	
	<p>4. If historical data was used in the cost or pricing data under review, perform substantive procedures to provide reasonable assurance the historical data was in compliance with TINA (accurate, complete, and</p>	

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current). The substantive procedures may be documented in this assignment or previously completed assignments by reference.	
5. Summarize the results of the ODC evaluation. <i>Ensure that you have sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current data as of the certification date.</i>	
6. If defective pricing is found, discuss with the contractor and contracting officer to determine if there is any additional information available that would change the results. If additional data is provided, review the data to determine if it changes your conclusion.	
7. Calculate the recommended price adjustment using a precise baseline of the other direct costs. <i>The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).</i>	

K-1	Offsets	WP Reference
Version 7.0, dated August 2011		
<p><i>Although audit procedures should not be specifically designed to seek out offsets, the auditor should notify the contractor and the contracting officer in writing of potential offsets. Until the contractor provides the required certification for its offset submission including offsets found by the auditor, DCAA should neither adjust the findings nor expend additional resources on the alleged offsets.</i></p> <p>If the offsets are certified, evaluate them in the associated section of the audit program and in accordance with CAM 14-118.</p>		

A-1	Concluding Steps	WP Reference
Version 7.0, dated August 2011		
<p>1. Summarize the results of audit of individual cost elements:</p> <ul style="list-style-type: none"> a. If defective pricing was found, assure that the five elements of defective pricing have been met and a precise baseline has been established for each recommended price adjustment. Assess whether the total recommended price adjustment for this pricing action meets materiality working guidelines provided in CAM 14-120.1c. See Audit Planning Considerations (1.b.). b. Ensure that working papers include sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete, and current data as of the certification date. 		

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<p>2. Incorporate positive results from any technical/assist audits or other audits performed at the subcontract level. In most cases the report should be held until all requested assistance is received. Only in rare cases, should a report be qualified for this issue (e.g., statute of limitation concerns).</p>	
<p>3. Determine whether any findings of defective pricing require further pursuit or referral because the audit detected material errors, irregularities, abuse, or illegal acts. Do not release or disclose to the contractor information relating to a matter referred for investigation. (CAM 14-121 and 4-700).</p>	
<p>4. Determine whether any of the defective pricing findings resulting from this audit are the result of estimating deficiencies which have not been previously reported (CAM 14-120.7d and 10-400). If these deficiencies still exist prepare an audit lead as appropriate.</p>	
<p>5. Ensure that the contractor has provided a certificate in support of any claim for offsets (for contracts awarded on or after February 15, 1987). Do not evaluate any offset or adjust the audit findings until the contractor provides the required certificate (CAM 14-118b).</p>	
<p>6. Discuss the results of audit with the supervisory auditor and/or audit team. Discussion should include any recommended price adjustment that does not exceed the materiality threshold to ensure that other conditions do not exist that would warrant reporting defective pricing below the materiality threshold. (See CAM 14.120.1(c)).</p>	
<p>7. Confirm with the contracting officer in writing that the data in question was not disclosed and that the Government did not have actual knowledge. An example memorandum, entitled “Memorandum to the Contracting Officer to Confirm Knowledge of and Reliance on Cost or Pricing Data,” can be found in Other Audit Guidance.</p>	
<p>8. Summarize the recommended price adjustments.</p>	
<p>9. Prepare the draft audit report in accordance with CAM 10-200 and CAM 10-600. Notes should be included for each area reviewed whether defective pricing was found or not. Particular attention should be placed on documenting the audit evaluation in all notes. If defective pricing is found, assure the notes sufficiently explain the reasons for the defective pricing in relation to the five elements that must be met to prove defective pricing.</p>	
<p>10. Submit the working papers and the draft report for required reviews. Postaward audit reports should not be issued until initial findings have been properly coordinated and discussed by all parties.</p>	
<p>11. Provide the contracting officer with the draft report exhibit(s) and explanatory notes on apparent defective pricing issues so that he/she has an opportunity to provide comments (CAM 14-122a). Ask that</p>	

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<p>the contracting officer provide written comments on the findings in the draft report. An example memorandum, entitled “Memorandum to the Contracting officer Requesting Comments on the Draft Audit Report on Postaward Audit,” can be found in Other Audit Guidance. Describe in the final report the auditor’s interaction with the contracting officer during the audit and the contracting officer’s reaction to issues and the draft audit report. If the pricing action is a subcontract, the report will be addressed to the prime contract auditor. Coordinate the subcontract audit results with the prime contract auditor.</p>	
<p>12. Hold an exit conference with the contractor (CAM 4-304.3). The contractor should normally be provided a draft copy of report exhibit(s) and explanatory notes, unless the circumstances addressed in Step 3 above apply. The contractor should be afforded an opportunity (normally 30 days) to review the matter and provide any additional information for the auditor’s consideration (CAM 14-122b).</p>	
<p>13. Complete the administrative working papers.</p>	
<p>14. Update the perm file as appropriate.</p>	
<p>15. Update the draft audit report to incorporate the exit conference and contractor comments. Submit the working papers and draft report to the supervisor for final review and processing.</p>	