### Type of Service - Attestation Examination Engagement

#### Audit Specific Independence Determination

Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment.

*(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g., technical specialists) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)*

#### Purpose

1. The primary purpose of the audit is to review the quantum (amount of the monetary adjustment) aspect of an equitable adjustment to determine if the proposed or claimed costs, resulting from an asserted Government caused delay or disruption, are acceptable as a basis for negotiation or settlement. This audit is performed under the assumption that the allegation of entitlement may be proven valid. As part of the audit of quantum, the auditor should determine if the contractor’s records show whether the contractor experienced any losses, such as increased costs or unabsorbed overhead, as a result of the asserted delay/disruption.

2. This program is intended to provide the proper planning, performance, and reporting on the review of a contractor's delay or disruption proposal or claim. The audit steps in the program should reflect a documented understanding between the auditor and supervisor as to the scope required to comply in an efficient and effective manner with generally accepted auditing standards and DCAA objectives. The program steps are intended as general guidance and should be tailored to determine audit risk.

#### Scope

1. Audit scope will generally depend on individual circumstances. In general, the examination should evaluate compliance with applicable acquisition regulations, CAS, and contract terms as appropriate. Related audits, systems surveys, contractor internal controls and internal reviews should be considered when selecting specific audit steps and the extent of transaction testing to be performed. Once the preaudit analysis is performed, a transaction test program should be written based on the analysis. Additional audit steps should be developed to satisfy specific requirements of the request for audit.
2. A requester may ask the auditor to evaluate limited portions of contractor price adjustment submittals by means of agreed-upon procedures. Agreed-upon procedures are appropriate when objective evaluation criteria exist and the auditor and requestor reach mutual agreement on the procedures to be followed. See CAM 10-1101 and 10-1000 for further guidance.

3. A delay/disruption proposal or claim has two elements: entitlement and quantum. Entitlement (whether the contractor has been impaired by Government action and, therefore, has a right to a monetary adjustment) is a legal issue. However, the auditor may identify or develop information bearing on entitlement. Any meaningful observations, such as (1) failure to mitigate damages, (2) availability of replacement or substitute work during the delay period, or (3) indications that the contractor was aware of site conditions or other causes prior to the original bid (refer to CAM 12-804d for additional items), should be conveyed to the contracting officer in the report as part of a note or in an appendix.

4. Review the audit request to determine the objectives of the audit, noting any specific information requested. Coordinate with the requestor to gain an understanding of the nature of the proposal or claim. Determine whether there are any specific concerns or additional information that was not included in the request.

5. Review guidance in CAM 12-504 to determine whether the request for equitable adjustment is a claim under the disputes clause of the contract. If the request is a claim, the Contract Disputes Act requires that interest accrues to the contractor on the settled amount from the date that the contracting officer receives a valid claim. In addition, the contracting officer is limited to only 60 days, or a specified future date from the date a valid claim is received, to render a decision on the disputed matter. Accordingly, it is critical to provide timely audits of data supporting the claim. Refer to the Screening Checklist for further guidance.

6. If the claim has been appealed to a board of contract appeals or U. S. Court of Federal Claims, a Government trial attorney may request an initial audit of a claim or an “update” to an audit completed prior to the appeal. Coordinate with the trial attorney on the rules of evidence (contractor records) applicable in the circumstances. Refer to CAM 1-406 for guidance on the relationship with Government legal counsel in contract disputes matters and CAM 15-500, Procedures for Actual or Potential Contract Disputes Cases.

7. When the contractor appeals a contracting officer’s final decision to a board of contract appeals or the U. S. Court of Federal Claims, coordinate all actions with the assigned trial attorney/DOJ attorney. If the appeal has been assigned to a DOJ attorney, do not accept audit requests regarding the claim from anyone without first discussing the matter with the DOJ attorney.

Other Planning Considerations

Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.

References

The following references should be reviewed prior to starting the audit:

1. CAM 12-500, Equitable Price Adjustment Proposals or Claims -- Overview
2. CAM 12-600, Equitable Adjustment Proposals or Claims -- General Audit Guidance
3. CAM 12-700, Auditing Submissions Under the Changes Clause
4. CAM 12-800, Auditing Delay/Disruption Proposals or Claims
5. CAM 4-700, Responsibilities for Prevention, Detection, and Reporting of Suspected Irregularities
6. CAM 4-800, Special Reporting of Unsatisfactory Conditions
7. FAR 31.201-2, Determining Allowability
8. FAR 33, Protests, Disputes, and Appeals
9. FAR 52.233, Protests, Disputes and Appeals clauses, as applicable
10. FAR 52.236-2, Differing Site Conditions
11. FAR 52.242-14, Suspension of Work
12. FAR 52.242-15, Stop-Work Order
13. FAR 52.242-16, Stop-Work Order -- Facilities
14. FAR 52.242-17, Government Delay of Work
15. FAR 52.243, Contract clauses as applicable
16. For construction contracts, FAR 31.105, Construction and Architect-Engineer Contracts
17. For construction contracts, DFARS 252.236-7000, Modification of Proposals – Price Breakdown
18. DFARS 252.243-7002, Requests for Equitable Adjustment
19. CAM Appendix B, "Specialist Assistance"

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<thead>
<tr>
<th>B-1</th>
<th>Preliminary Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Version 6.22, dated May 2019</strong></td>
<td><strong>WP Reference</strong></td>
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<tr>
<td>1. Review the contractor's proposal or claim to determine if it is adequate to be audited (see the Screening Checklist). If it is determined that the proposal or claim is inadequate for audit, coordinate with the contracting officer/trial attorney to return the proposal or claim to the contractor for supplementation prior to initiating the audit (see Part XI of the Screening Checklist (WP B-4)). If not already provided electronically, request the contractor to submit its proposal and supporting data in electronic media, (e.g., CD-ROM, on-line access). The data should be in an acceptable format for processing on DCAA computers (e.g., Microsoft Office products).</td>
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2. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, management’s awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be documented in the working papers.

3. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential noncompliances, due to error or fraud, that could materially affect the subject matter. The discussion should include:
   - relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),
   - relevant aspects of the contractor and its environment,
   - risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements),
   - other known risk factors,
   - the audit team’s understanding of relevant internal controls,
   - inquiries to the contractor regarding its fraud management plans and controls.

Document fraud risk factor/indicators (see - Sources of Fraud Indicators below) that are present and could materially affect the subject matter. If fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud. Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.

Sources of Fraud Indicators:

- Fraud Detection Resources for Auditors ([Fraud Detection Resources](http://gao.gov/products/GAO-12-331G))

- GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk ([http://gao.gov/products/GAO-12-331G](http://gao.gov/products/GAO-12-331G))

(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in a web browser (Firefox, Edge, etc.).)
4. Review the proposal or claim to determine if significant subcontract costs exist. Request assist audits, as necessary.

5. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-306.1c(2) and (3). If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.

6. Electronically transmit an acknowledgement/notification to the ACO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-305). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.

7. Coordinate with the requester as soon as possible after receiving the audit request regarding the availability of specialist assistance. If the proposal or claim includes costs for loss of efficiency or learning, determine if an evaluation by a specialist is needed to ascertain the reasonableness of the factors used. Also request specialist assistance in the evaluation of asserted days of delay, additional days of extended performance, and excess material or labor. Specialist assistance may be required to determine the cost realism of the bid or negotiated cost elements (see audit step 17 below). Specialist assistance may also be required for issues such as interpretation of work schedules (CAM 12-805.4d), interpretation and use of Corps of Engineers (COE) equipment schedules (CAM 12-802.5c), or use of total cost or modified total cost method (see preliminary audit step 23 below).

8. Coordinate with the requester on the following areas, as necessary, as soon as possible after receipt of audit request:

   a. Determine if the contracting officer has prepared a “Chronology of Significant Events.” If a list was not provided with the request for audit, request the contracting officer provide the list as required by FAR 43.204(b)(5). If one is not available, prepare a “Chronology of Significant Events.”

   b. Proposal or Claim. Review CAM 12-504 and the submission to differentiate between an REA proposal or a CDA claim, and if it is a routine or non-routine demand for payment. Before proceeding with the audit, contact the CO for a determination whether the submission
is a proposal or claim. Refer to Screening Checklist, Steps C1 and C2. This determination is necessary before performing the Review of Claim Preparation Costs section.

c. Scope Restriction. If the request contains a scope restriction or proposes to limit the audit to particular areas, the auditor should ascertain the reasons. If compliance with the restriction or limitation would substantially diminish the value of the audit, the auditor should advise the requester and the trial attorney, if any, and propose additional areas for review.

d. Time Limit. If a time limit is determined to be inadequate to complete the audit (especially a major proposal or claim, sensitive review, or proposal or claim with potential for significant audit findings), request a time extension detailing the areas where work will not be completed because of the time restriction. If the extension is not granted, issue a report to the requester within the stated time period. The report should state the reasons for the denial of the time extension. In addition, coordinate with the requester to determine whether continued audit effort beyond the set due date would be beneficial. If the requester desires continued audit effort, the audit report should also state that the audit effort is continuing and that a supplemental report will be issued.

9. Discuss the background of the proposal/dispute with the CO (and trial attorney, if appropriate). Obtain an understanding of the Government’s position on the alleged changed condition. Document any differences between the contractor and the Government. Differences concerning alleged inaccuracies in technical specifications or additional requirements may have a significant effect on labor, materials, and other proposed or claimed costs.

10. Prepare any audit steps necessary to satisfy specific requirements of the request for audit.

11. Review the CO’s contract files for pertinent documents, such as relevant change orders, detailed field reports, and job process reports.

   a. Review all prior and current contract price adjustments for duplication of cost in the instant price adjustment.

   b. Review all contract modifications (FAR 53.301-30, Standard Form (SF) 30, Amendment of Solicitation/Modification of Contract) for release/waiver clauses related to the specific change order or previously compensated change order proposals. The CO may have issued a supplemental agreement whereby the contractor released the Government from any and all liability under the contract for further equitable adjustments relating to the same facts and circumstances giving rise to the earlier modification. The auditor should provide the requestor with any meaningful observations regarding prior
contract-modification waivers. Whether or not prior contract modifications relating to the same facts and circumstances contain a contractor’s waiver, question any costs in the current claim that are duplicative of costs reimbursed under prior contract modifications. (See FAR 43.204 and CAM 12-604).

12. Brief the contract for the period of performance, total contract amount, and all pertinent FAR clauses or provisions. Complete a contract brief (See Delay-Contract Brief, working paper 31.)

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<td>a. For manufacturing/supply contracts, review First Article Testing provisions in the contract (FAR 52.209-4(c)) that may limit the costs for retests to be borne by the contractor.</td>
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<td>b. For construction contracts, determine if the contract provides for liquidated damages payable to the Government for each day's unexcused delay beyond a predetermined completion date. Such a clause may appear in any contract by agreement of the parties. It is important to remember that the clause was placed in the contract to protect against delays, such as material outages, which are within the contractor's control and not Government caused.</td>
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13. Determine if there was a formula in the contract for computing the requested price adjustment, or if subsequent modifications to the contract provided a formula or basis for computing adjustments that differ from those of the original contract.

14. Determine whether an audit of the initial pricing proposal was performed. If an audit was performed, review the proposal and the audit report for any information that may impact the claim.

15. Arrange an entrance conference with the contractor personnel responsible for preparing the proposal or claim. If applicable, include a follow up with contractor management on:

- a. corrective actions that address previous DCAA audit findings and recommendations (step 21),
- b. other studies or audits that impact the subject matter under audit (step 22).

16. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.

17. Review initial pricing or bid data to determine if the contractor may have underbid the original contract (potentially representing “buying-in” on the contract, see FAR 3.501), which would impact the labor, material, or other costs submitted. If no audit was conducted on the initial pricing proposal, request and review the contractor’s support data related to the initial pricing proposal or bid for any information that may impact the costs submitted.
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<td><strong>a.</strong> Compare the bid or negotiated cost elements and actual cost data, exclusive of that related to the delay to determine a possible loss on the contract. Specialist assistance may be required to evaluate any significant differences in labor hours or material quantity costs. Proposed or claimed cost elements that were not included in the bid may indicate intentional underbidding.</td>
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<td><strong>b.</strong> Question costs unrelated to the delay or those underestimated in the bid. Provide comments on the contractor’s profit or loss position in the audit report.</td>
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<td><strong>18.</strong> If the claim has been appealed to a board of contract appeals or U. S. Court of Federal Claims, coordinate with the trial attorney on the rules of evidence (contractor records) applicable in the circumstances (see CAM 1.406).</td>
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<td><strong>19.</strong> Review FAO files to determine if a DCAAF 2000-0 has been filed that relates to the subject matter of the proposal or claim. If it has, notify the appropriate investigative agency or DOJ attorney of the proposal or claim. Notify the contracting officer of the DCAAF 2000-0. (See CAM 4-702.5e.)</td>
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<td><strong>20.</strong> Review permanent audit files and prior audits to obtain background information and identify potential audit leads to help establish audit scope. Review any prior equitable adjustment audit reports to ascertain the nature and extent of duplicative issues. Consider these in developing detailed steps. Determine if there were any CAS noncompliance issues outstanding during the contract performance period that may have contributed to the increased costs.</td>
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| **21.** Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures:  
   a. During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.  
   b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.) |   |
22. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)

a. During the entrance conference:
   - Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.
   - Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result.

b. If the review of the perm file or the contractor identifies relevant internal audits:
   - Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment.
   - Document the results of the determination in writing.
   - If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.
   - If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports.
   - The request, issued by the CAC, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers.

c. If the review of the perm file or the contractor identifies relevant other audits or studies:
- Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).
- Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.

d. Document the results of the inquiries including the response received from contractor’s for any request for access to internal audit reports. (If access was not granted this should include the contractor’s rationale or justification for not granting access).

e. Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)

23. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the subject matter under audit.

24. Make sufficient inquiries to fully understand the contractor's position regarding the nature of the delay/disruption and the extent of alleged Government responsibility. Discuss these items with the CO (and trial attorney, if appropriate). Differences concerning alleged number of delay days may have a significant effect on labor, materials, and other submitted costs.

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<td>a. Make inquiries to fully understand the methodology used to develop the price adjustment. Determine if different methodologies were used for different cost elements, or whether the contractor used methodologies that differ from its normal estimating and accounting procedures.</td>
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<td>b. If the contractor used the total cost method or modified total cost method for one or more of the proposal or claim elements, see the Review of Total Cost or Modified Total Cost Method. (CAM 12-704)</td>
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<td>c. Determine if costs incurred related to the changed condition were segregated in the contractor’s records. If costs were not segregated, determine why not. If the contractor's accounting system does not adequately identify and segregate costs by project and contract, has</td>
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the contractor summarized the incurred costs from pertinent source documents to fully disclose the actual costs applicable to the contract and the proposal or claim?

d. Determine the extent that incurred costs related to the changed condition were used in the pricing of the adjustment.

e. Determine the extent that estimates were used in the pricing of the adjustment. If estimates were used to price the adjustment, to what extent were they based on incurred costs?

f. Determine whether the proposal/claim includes costs already covered by a termination proposal (CAM 12-103b).

g. When proposals or claims relate to multiple contract issues, contractors often summarize its proposed or claimed costs by contract issue instead of by cost element. In these cases, perform additional procedures to ensure costs are not overstated. Compare total costs proposed or claimed for each significant cost element to the job cost ledger and/or bid/budget for the cost element. Any significant differences should be discussed with the contractor to solicit its explanation.

25. Obtain additional supporting data, including budgets and actuals for indirect costs (including allocation bases and fixed and variable costs); direct costs, including labor hours and costs, material costs, and subcontracts; and audited financial statements and tax returns for the entire performance period of the contract.

26. If external legal or financial consultants prepared the proposal or claim, obtain a copy of their working papers that support the proposal or claim. Costs incurred for proposal or claim preparation should be identified separately from other claimed costs to determine their allowability (See the Review of Claim Preparation Costs section).

27. Review the contractor’s correspondence and contract files for relevant documents. Obtain a list of all outstanding and recently settled claims adjustments on other contracts that relate to the period of performance of the subject contact.

28. Summarize the results of the risk assessment and preliminary audit steps and clearly identify the planned scope of audit for each cost element.
### C-1  Contractor Claim Submission

**Version 6.22, dated May 2019**

<table>
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<th>WP Reference</th>
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1. If the contractor's proposal or claim/support was initially determined to be adequate for audit as a result of applying preliminary audit steps, but is subsequently determined to be inadequate during field work (e.g. referenced supporting documentation is inadequate or unavailable), discuss what additional data is needed with the contractor. If such data is not reasonably available, follow the procedures in the Screening Checklist, Part XI.

2. Perform mathematical verification of the proposal or claim and supporting data.

3. Coordinate with the CO to determine what clause(s) the contractor based its recovery on and if the submission complies with the conditions of the clause(s). For example, if the contractor claims profit, is a profit factor permitted by the clause used as a basis for the price adjustments (See CAM 12-502 and 12-802.7)? If not, provide this information in the audit report.

### D-1  Subcontracts

**Version 6.22, dated May 2019**

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<th>WP Reference</th>
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Review the prime contractor’s subcontract files.

1. Follow up with cognizant FAOs for subcontractors identified in WP section B-1, step 4, to assure timely issuance of assist reports for incorporation in the audit report. If there will be a delay in the issuance of the assist audit report, coordinate with the CO to determine if the results can be forwarded directly to the CO after issuance of the prime report.

2. Forward any pertinent data such as lien releases, correspondence and the like to the subcontract auditor. Offer to provide any additional supporting data the assist auditor may require.

3. Review the prime contractor’s correspondence file for legal documents related to subcontractors. A review of the files may disclose that the prime contractor is holding the subcontractor liable for increased costs as a result of changed conditions caused by the subcontractor, or that the subcontractor waived its rights at some point.

4. Determine if the prime contractor has recorded a liability in the accounting records for the subcontractor’s claim. While a failure to do
so does not preclude recovery, it is an indicator of the prime contractor’s belief in the validity of the subcontractor’s claim.

5. For construction contracts, determine if any of the original subcontractors defaulted. If there were subcontractor defaults, determine if the prime received or will receive payments from the original subcontractor’s bonding company (surety). Question any payments from the bonding company that are related to claimed costs.

Subcontract Audits

6. Advise the subcontractor that the audit report may be made available to the prime contractor or upper-tier subcontractor and that the audit report will indicate the extent to which the subcontractor agrees to disclosure of the results.

7. Obtain the subcontractor’s consent for release of the audit report or reason(s) for not authorizing release. If there are restrictions to the release of data to the prime, ask the CO whether the audit should be continued.

8. Coordinate with the prime auditor on due date and other items of mutual concern.

9. Brief the contract between the prime and the subcontractor. Determine if an exculpatory clause limits the prime contractor’s liability to the subcontract price. If such a clause is included, determine if the prime contractor’s right to recover damages is limited. A deviations and substitutions clause may limit the liability of the prime for any substitutions or deviations not approved by the Government.

E-1 Internal Documentation

Version 6.22, dated May 2019

1. Ascertain the operations or departments affected by the delay and the extent of any related work rescheduling or rephasing. Review backlog or internal job log documents that include information on commercial as well as Government jobs. Obtain a description of the numbering system used to distinguish one job from another job. This information can assist in identifying replacement contract(s) or accelerated work on other contracts. (Refer to the Review of Unabsorbed Overhead, step 3.a. and d.).

2. Review all time-phased work/production schedules of the entire contract performance period as contemplated before the delay occurred, and a schedule of work as actually performed, to assist in determining the extent and perhaps the cause of the delay. For example, the contractor may have adjusted the work schedule for reasons unrelated
3. Also review all time phased work/production schedules from key subcontractors, whether or not they are requesting unabsorbed overhead. Such information can provide additional information useful in evaluating the prime’s claim and could show inconsistencies between the subcontractor’s and prime contractor’s representations.

4. Review all contemporaneous revenue projections by contract on a plant wide basis where the time period for such projections encompasses at least in part, the time period encompassed by the entire performance of the contract including the period of delay. If total actual revenues match or are greater than planned revenues or certain contracts have higher actual revenues than planned, this may indicate that the contractor accelerated the work on certain contracts or substituted new work for the work on the delayed contract.

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<th>F-1</th>
<th>CAS And FAR Implications</th>
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<td>Version 6.22, dated May 2019</td>
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<td>1.</td>
<td>Determine if the contract contains the CAS clause before proceeding with this section. Delay and disruption claims commonly arise under fixed-price contracts and frequently under sealed-bid contracts or contracts otherwise exempt from CAS or FAR Part 31.</td>
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<td>2.</td>
<td>Refer to the contractor's Disclosure Statement (if any) in effect during the period of incurrence of proposed or claimed costs including the proposal or claim and results of prior reviews. Ascertain that accounting for significant cost elements in the proposal or claim is consistent with established/disclosed practices and complies with FAR Part 31 and the Cost Accounting Standards if applicable. Delay or disruption proposals or claims may include as direct charges costs which would have been indirect. In such cases, the auditor should document in the audit working papers the justification for the departure from established cost accounting practices.</td>
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<td>3.</td>
<td>Refer to the DMIS and CAS Compliance Testing Reports in the permanent file or planning file. A CAS compliance review should be accomplished, as needed, and documented for applicable standards (see audit packages for such reviews).</td>
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<td>4.</td>
<td>Coordinate with your supervisor for possible audit extension and issuance of separate assignment number for a noncompliance report if positive noncompliance situations are indicated. Materiality should be considered prior to initiating a separate noncompliance report. Refer to CAM 8-302.7.</td>
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5. Determine if the contract contains the Pricing Adjustments clause (DFARS 252.243-7001) that requires costs to be in accordance with FAR Part 31.

G-1 | Delay And Extension Days
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Version 6.22, dated May 2019 | WP Reference
Request the contractor to provide documentation in support of the proposed number of delay or disruption days and the number of extension days (CAM 12.804.4). Coordinate the number and dates of the delay and extension days submitted with the contracting officer/trial attorney. This information is frequently used in calculations of labor, material, and unabsorbed overhead costs. In addition, the contractor is precluded from recovering the same cost more than once for overlapping delays. Incorporate the results of the specialist evaluation.

H-1 | Labor Costs
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Version 6.22, dated May 2019 | WP Reference
1. Draft a transaction testing program to determine the cause and the allowability and allocability of proposed or claimed labor costs:
   a. Verify maintenance or standby labor hours to timesheets or other supporting documentation and labor distribution reports. Determine if the standby labor was diverted to other contracts or other production usage and that the decision to retain standby labor was reasonable in the circumstances. For instance if other work was available, determine why “idle labor” was not employed on such work.
   b. Determine if the claimed direct labor is recorded on the contractor’s accounting records separate from the indirect labor, supported by time sheets or other accounting records. Review the basis for any estimates.
   c. Determine if any of the submitted costs are due to (i) a change in scope or specifications, (ii) the normal increase that often occurs as a contract "tails off", or (iii) other factors unrelated to the delay. Specialist assistance may be required to make this determination.
   d. Review any communications or meetings between the contractor and any or all labor unions, related to the delayed contract. Review
union agreements covering the delayed period to understand any possible adverse impact in the event of a decrease in work.

e. Determine if the contractor laid-off employees as a result of the alleged Government caused delay or disruption. Review relevant documentation (time sheets) as to the date of discharge and possible recall.

<table>
<thead>
<tr>
<th>I-1</th>
<th>Material Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Version 6.22, dated May 2019</strong></td>
<td><strong>WP Reference</strong></td>
</tr>
<tr>
<td>1. Draft a transaction testing program to determine the cause and the allowability and allocability of proposed or claimed material costs:</td>
<td></td>
</tr>
<tr>
<td>a. Price variance: Trace amounts claimed to purchase invoices, since a contractor frequently executes firm commitments for major material requirements at the time the contract or modification is signed to protect against cost growth.</td>
<td></td>
</tr>
<tr>
<td>b. Quantity variance: Determine if the change in number of items used was the result of loss due to scrap and spoilage, deterioration over time, theft, inadequacy of initial estimate or other causes, any of which may or may not arise from Government actions. Specialist assistance may be required.</td>
<td></td>
</tr>
<tr>
<td>c. Evaluate any changes in make-or-buy decisions subsequent to contract award to determine their impact on costs not caused by the delay. Also consider changes to proposed manufacturing processes that result in increased costs unrelated to the subject delay or disruption.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>J-1</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Version 6.22, dated May 2019</strong></td>
<td><strong>WP Reference</strong></td>
</tr>
<tr>
<td>1. Draft a transaction testing program to determine the cause and the allowability and allocability of proposed or claimed indirect costs:</td>
<td></td>
</tr>
<tr>
<td>a. Determine if indirect expenses allocated to direct costs associated with delay are allowable and in accordance with the contractor's cost accounting system.</td>
<td></td>
</tr>
<tr>
<td>b. Determine if indirect expenses reclassified as direct are appropriate to the circumstances if they are not in accordance with the cost accounting system.</td>
<td></td>
</tr>
</tbody>
</table>
c. Analyze indirect costs associated with "standby" direct costs to determine that the underlying causal-beneficial relationship is still valid. For example, "standby" direct labor requires no supervision and the related supervisory labor may not be in a standby status. If such a case exists, the indirect costs applicable to standby labor should be adjusted accordingly.

d. Determine that costs are not subject to duplicate recovery (both as direct costs and through an overhead rate) in the same time period. Contractors sometimes include as a direct charge certain expenses normally included in overhead when work on a contract ceases during a delay. Such items as occupancy costs, insurance, equipment rental or depreciation may continue, and should be treated as ODC when this happens.

e. Determine if these costs have been removed from the overhead pool for final rate determination or any other existing contractor claims. Review audit files for prior claims of indirect costs as ODC.

<table>
<thead>
<tr>
<th>K-1</th>
<th>Unabsorbed Overhead And Evaluation Of The Eichleay Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Version 6.22, dated May 2019</td>
</tr>
<tr>
<td>1.</td>
<td>Determine the formula or method the contractor applied to compute the claim for recovery of unabsorbed overhead. If the contractor applied a formula other than the basic Eichleay formula (See Eichleay Worksheet) such as the modified Eichleay, determine the basis for its use as opposed to the basic Eichleay formula.</td>
</tr>
<tr>
<td>2.</td>
<td>Check the mathematical accuracy and support of the contractor’s computations used in the methodology or formula. Review all working papers that support the contractor’s computations. If the contractor hired consultants to prepare the claim, request all working papers that support the consultants’ work product. Reconcile the contractor’s data to incurred cost records and other documents as appropriate.</td>
</tr>
<tr>
<td>3.</td>
<td>Audit of Eichleay formula damages:</td>
</tr>
<tr>
<td>a.</td>
<td>Examine the Eichleay formula billings/allocation ratio components (Refer to Worksheet for the Eichleay Formula).</td>
</tr>
<tr>
<td></td>
<td>(1) Determine if the contract billings (revenues), total billings (revenues), total fixed overhead and days of performance are for the same time interval from the date of contract award to the completion date. Billings are not progress payments or public voucher payments (see CAM 12-804.2).</td>
</tr>
</tbody>
</table>
(2) Determine if the billings data (contract revenue) used in the allocation ratio are accurate and appropriate.

(a) Determine if the contractor uses an allocation base other than contract billings (such as contract labor/total labor). If so, compare this ratio with the established Eichleay formula allocation ratio and contract billings/total contract billings.

(b) Recompute the Eichleay formula using the billings allocation ratio unless the impact of a different measurement allocation base is immaterial or the contractor can demonstrate that the Eichleay formula billings allocation ratio would lead to inequitable results.

(c) If the contract has not been completed, determine if the contract billings and total contract billings (Refer to the Worksheet for Auditing Unabsorbed Overhead Using the Eichleay Formula, Step 1) include estimates to complete. Evaluate the basis and reasonableness of the estimates.

(3) Review the contractor’s method for recognizing revenue (billings) to determine if the method results in an inequitable allocation of unabsorbed overhead (Refer to the Worksheet for Auditing Unabsorbed Overhead Using the Eichleay Formula, Step 1).

(a) Percentage-of-completion method. Evaluate the assumptions used to measure the extent of progress towards completion.

(b) If completion is overstated or understated, adjust the billings (revenues) whether in the numerator or denominator of the formula to prevent over or under recovery of unabsorbed overhead.

b. Analyze the overhead thoroughly to remove all variable overhead costs. If semi-variable costs are included, remove the variable portion (CAM 12-804.3). Ensure that all unallowable costs are removed from the overhead.

c. Determine if the “delay days” used in the contractor’s Eichleay formula computations represent only the number of days that the performance of the contract was extended beyond the original or previously revised completion date because of a Government caused delay or suspension. Specialist assistance may be required. Questions any days that are not related to the extended performance period caused by the Government delay or suspension (CAM 12-804.4).

d. Recompute the Eichleay formula using the results obtained from steps a, b, and c above, if required.
### e. Compare the contractor’s Eichleay formula computations with the results of Step d. Question the difference between the contractor’s computation and the results of audit. Use the worksheet Presenting the Results of Audit of the Eichleay Formula.

### f. Credits: Determine if the audit computed Eichleay damages calculated on the Worksheet referenced in Step e above, include:

1. Fixed overhead proposed or reimbursed that was applied to direct costs in the submission, and any new change order work or out-of-sequence work performed on the delayed or suspended contract during the delay and extension periods.

2. Identify the out of sequence work or change order work: date and number of the change order/modification, type of work, dollar amount, date(s) work performed.

3. Calculate the credit for out of sequence work on the delayed or suspended contract using Steps 1-3 of Steps to Assess the Impact of Replacement or Other Substituted Work on the Eichleay Formula attached. Question the costs as a credit to the Eichleay formula. Add the questioned cost to the attached worksheet “Presenting the Results of Audit of the Eichleay Formula” as a “Credit.”

4. Credit the Eichleay formula results for any fixed overhead that the prime contractor applied to a subcontractor’s proposed or claimed unabsorbed overhead. Add the questioned costs in the “Presenting the Results of Audit of the Eichleay Formula” worksheet as a “Credit.”

### g. Assess the impact of replacement work or accelerated work on other contracts:

1. Review contractor records for evidence of replacement contract(s) or accelerated work (CAM 12-805.4a-c). Indicators include:
   - Labor registers that show personnel from the delay contract were assigned to other contracts during the delay period.
   - Fixed overhead rates, during the delay period and extended performance period that decreased or were unchanged.
   - New contracts for work not normally performed by the contractor added during the delay and extension periods.

2. Identify replacement contracts or accelerated work with:
   - Replacement contract: date of award, contract number, performance period, amount of contract, the type of effort, duration or size and location (CAM 12-805.4b).
(b) Accelerated work: date of award, contract number, a schedule of the work as planned and as performed, total amount of the contract and the type of work (CAM 12-805.4c).

(3) Compute the impact of the replacement contract and accelerated work using Steps 1-7 in the attached “Presenting the Results of Audit of the Eichleay Formula” worksheet.

(4) Add the questioned costs to the attached Presenting the Results of Audit of the Eichleay Formula. The questioned costs are the difference between the Eichleay formula as audited and the computed impact of replacement work or accelerated work, as shown in Step 9 in the attached Steps to Assess the Impact of Replacement or Other Substituted Work on the Eichleay formula.

### L-1 Claim Preparation Costs

**Version 6.22, dated May 2019**

1. Claim prosecution costs incurred after the submission of the claim to the CO are unallowable even if incurred in support of negotiations or alternative disputes resolution (ADR) processes (see CAM 12-606b). Determine if claimed preparation and support costs are factually related to the submission of the claim. Such costs are unallowable per FAR 31.205-47(f). Review invoices and other documents sufficient to ascertain the nature and scope of the services provided.

2. Determine if proposal preparation costs are reasonable (FAR 31.205-33) in relation to services rendered. Review the contract(s) with consultants. If the fee is contingent upon recovery from the Government, question the costs.

3. Ascertain the contractor's practices for charging equitable adjustment proposal preparation costs. The courts have ruled that allowable equitable adjustment proposal preparation costs are generally not reimbursable as a direct cost. However, such preparation costs may be a direct charge if consistent with the contractor's disclosed accounting practices.

### M-1 Construction Contracts

**Version 6.22, dated May 2019**
1. Review the job site diary, as important information not available in the accounting records may be available here. Such information may include extent of work performed, status of employees during delay periods and types and dates of equipment usage. Discuss data found in the records with those employees responsible for the records. Compare the data with that provided in the proposal or claim to determine if there are any discrepancies. Determine the basis for any discrepancies.

2. Review the contractor’s Davis-Bacon Act certified payroll record reports submitted weekly to the Government for the period under review. These reports are usually submitted on Dept. of Labor Form WH-347 (a copy of the form is included in FAR 53.303-347). The reports contain weekly payroll data: employee name, work classification, social security number, pay rate, pay period, hours worked per day and for the total week and total pay applicable. Determine if the records indicate whether the employees working on the job prior to the delay continued to work on the job full time or part time during the period of delay. Verify employees’ pay rates on the form to the contractor’s payroll records, paid checks, and submitted costs.

3. If the proposal or claim includes costs of construction equipment, review the submitted costs based on the allowability requirements set forth in FAR 31.105(d)(2).

   a. Determine the contractor’s basis for claimed equipment costs, actual equipment costs or predetermined rates.

   b. Actual cost data:

      (1) Trace claimed actual equipment costs to the contractor’s books and records.

      (2) Determine if cost data is available for each piece of equipment claimed or groups of a similar series or serial equipment (FAR 31.105(d)(2)(i)(A)). If the data is available, the FAR requires that the actual data should be used and not predetermined rates. If the data is not available, actual cost data may not be used.

      (3) If the equipment was idle or on standby during the alleged delay, question any claimed operating costs, such as gas, fuel, and operators’ costs.

      (4) Analyze the accounting assumptions used in the computation of actual equipment costs, such as equipment life and year entered into service. This data should be reconciled to other job records and company-wide financial accounting data. Verify any salvage values used in the equipment costs calculations.

      (5) Determine if the equipment costs are claimed in accordance with the contractor’s normal capitalization policies. Items not
customarily capitalized should be omitted from the contractor’s equipment costs. If the contractor normally expenses the costs of wheelbarrows or small tools, these should be omitted from equipment calculations.

c. Predetermined rates:

(1) Determine whether the allocation method the contractor uses for changes that increase the performance period is consistent with the contractor’s established accounting practice and applied for all contracts. If the allocation method is not consistent with the established accounting practice, recompute the overhead using the consistent method. Compare this amount with the proposed or claimed amount and question any differences (CAM 12-802.4b). Determine if the contractor met the FAR criteria permitting the use of the schedules (see (2)(b)). Determine if the contractor’s accounting system is capable of identifying the equipment costs based on the FAR criteria. If the data can be obtained, the rate schedules should not be used.

(2) Determine if the contract specified predetermined rate schedules to compute equipment costs. If a schedule is not mandated, request specialist assistance on the choice of an appropriate rate schedule. If the contractor used a schedule other than the one mandated in the contract, determine the reason for the deviation.

(3) Verify the contractor’s rate computations to the predetermined rate schedule used to compute the equipment costs.

(4) Review other claimed direct and indirect costs to determine if the costs of equipment claimed are included. Remove any claimed equipment costs that are duplicative.

(5) If claimed equipment costs included costs contained in non-equipment cost categories at the time of the bid or in other accounting records, determine the basis for reclassifications. Any claimed equipment costs not bid or unrelated to the subject delay or disruption should be disallowed (see CAM 12-802.5d).

(6) Report any evidence that the claimed equipment was used for other work during the alleged standby period.

d. Job Site/Field Overhead

(1) Evaluate the proposed or claimed job site/field overhead costs to determine if home office overhead costs are included. Question any home office costs included in the job site/field overhead costs.

(2) Determine whether the allocation method the contractor uses for changes that increase the performance period is consistent with
the contractor’s established accounting practice and applied for all contracts. If the allocation method is not consistent with the established accounting practice, recompute the overhead using the consistent method. Compare this amount with the proposed or claimed amount and question any differences (CAM 12-802.4b).

e. Bonding Costs:

(1) Brief the contract for the bonding requirements clause (FAR 52.228-15).

(2) Verify the computation of bonding costs. Determine if the contractor’s computation is based on the correct rate for the appropriate level of contract revenues.

(3) Determine the total bonding costs included in the original contract price, modifications and subject claim. Compare this amount with incurred costs or future liability. Question the difference.

<table>
<thead>
<tr>
<th>N-1</th>
<th>Total Or Modified Cost Method</th>
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<tbody>
<tr>
<td><strong>Version 6.22, dated May 2019</strong></td>
<td>WP Reference</td>
</tr>
</tbody>
</table>

If the contractor computed any element(s) of the proposal or claim using the total cost or modified total cost method, perform the following steps to determine if the contractor meets the criteria for acceptable use of the method. These steps should be performed in addition to any of the previous steps that apply. Determine if the contractor’s proposal or claim meets the following criteria:

1. **Impossible to determine actual related increased costs.**
   
a. Review the contractor’s accounting system to determine the capability and requirements to separately account for increased costs caused by the asserted change(s).

b. Determine if the contract included the Change Order Accounting Clause (FAR 52.243-6). Determine if the CO issued any directives requiring the contractor to establish separate cost accounts for activities related to changed work and if the contractor complied with the directive.

c. If the contractor is CAS covered, review the disclosure statement for statements regarding the capability of the accounting system to segregate costs when necessary.

2. **Bid is realistic**
### Master Document – Audit Program

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<tbody>
<tr>
<td>a.</td>
<td>Compare the bid with Request for Proposal (RFP) requirements. Determine if any significant elements were omitted from the bid but included in the submitted costs.</td>
</tr>
<tr>
<td>b.</td>
<td>Compare the contractor’s bid with other contractors’ bids for the same acquisition, if available from the CO.</td>
</tr>
<tr>
<td>c.</td>
<td>Compare the proposed price to recent historical data of similar work. If the bid is significantly less, determine why.</td>
</tr>
<tr>
<td>d.</td>
<td>Compare the contractor’s bid delivery schedule with those of unsuccessful bidders. Determine the reasons for significant differences.</td>
</tr>
<tr>
<td>e.</td>
<td>Compare bid cost elements to incurred cost elements. Examine those elements where the bid and the incurred costs are significantly different. Determine the reason for the difference.</td>
</tr>
<tr>
<td>f.</td>
<td>Review prior audit reports on the contractor’s estimating system for deficiencies that may have impacted the reasonableness of the bid.</td>
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### 3. Incurred costs were reasonable.

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<tbody>
<tr>
<td>a.</td>
<td>Reconcile the claimed costs to the contractor’s books and records. Determine if the incurred costs were allocable, allowable and reasonable in nature. Question those costs proposed or claimed that were not incurred or would not be incurred.</td>
</tr>
<tr>
<td>b.</td>
<td>Obtain specialist assistance to determine the cost realism of the estimate to complete if the contract is not yet complete.</td>
</tr>
<tr>
<td>c.</td>
<td>Determine if the contractor used estimates based on incurred costs. Any add-on factors to incurred costs or estimated costs should be logical and reasonable in the circumstances.</td>
</tr>
<tr>
<td>d.</td>
<td>Evaluate changed methodologies from the bid to the incurred costs. Determine if the contractor changed the labor mix or revised the make-or buy decisions. Determine the impact on submitted increased costs.</td>
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### 4. Government is clearly responsible.

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<tbody>
<tr>
<td>a.</td>
<td>Review the contract budgets for the period of performance and the contractor’s policies and procedures for comparing actual performance to the budget. Identify and analyze variances the contractor should have identified as work was accomplished. Gather information on contractor caused increased costs and increased costs due to alleged changed work.</td>
</tr>
<tr>
<td>b.</td>
<td>Determine if the contractor implemented any accounting changes having impacts that were not considered in the claim.</td>
</tr>
</tbody>
</table>
c. Determine if the contractor recognized any increased costs attributable to its own mismanagement in scheduling or material procurement.

d. Review correspondence between the prime contractor and the subcontractor(s) for indications of subcontractor failure to perform according to schedule or other issues that would cause increased subcontract costs.

e. Determine if there were extraordinary equipment repairs or delayed material ordering or deliveries that were charged to the contract and not the responsibility of the Government.

f. Review increased incurred overhead costs that may have been caused by loss of planned contract awards, contractor-caused delays, or contract terminations that are not the responsibility of the Government.

g. Determine if there were higher than normal material scrap costs that may indicate contractor caused cost growth.

h. Determine if the prime contractor proposed or claimed hours that were actually performed by a subcontractor. Determine if the subcontract was firm-fixed-price and if there was a change to a cost reimbursement contract. If there was no change, there is no liability to the Government.

5. Based on the results of performing the previous steps, determine if proposed or claimed costs are acceptable as a basis for negotiation or settlement because they meet the four criteria for applying the total cost method.

6. Modified Total Cost Method

   Perform the relevant steps above. Determine if the adjusted costs were accurate and complete.

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A-1  | Concluding Steps

<table>
<thead>
<tr>
<th>Version 6.22, dated May 2019</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Summarize audit findings on lead schedules. Include narrative comments, which concisely describe the contractor’s basis for proposed or claimed costs, questioned costs and basis of determination.</td>
<td></td>
</tr>
<tr>
<td>2. Evaluate the adequacy of the specialist work for the audit team’s purposes, and discuss any inadequacies with the specialist (CAM Appendix B, B-108 and B-109).</td>
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<tr>
<td>3.</td>
<td>Complete other audit work papers.</td>
</tr>
<tr>
<td>4.</td>
<td>Discuss audit findings with supervisor and FAO claims technical specialist (if available).</td>
</tr>
<tr>
<td>5.</td>
<td>Arrange and conduct an exit conference with contractor representatives in accordance with procedures specified in CAM 4-300. For claims appealed to the Board of Contract Appeals, U. S. Court of Federal Claims, or U. S. Court of Appeals for the Federal Circuit, coordinate with the trial attorney prior to conducting an exit conference.</td>
</tr>
<tr>
<td>6.</td>
<td>Auditors should document and communicate with the contracting officers upon the completion of our audit:</td>
</tr>
<tr>
<td></td>
<td>a. Brief the contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues, and/or</td>
</tr>
<tr>
<td></td>
<td>b. Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.</td>
</tr>
<tr>
<td>7.</td>
<td>Draft audit report using the guidance in CAM Chapter 10. Include contractor responses and, where appropriate, the auditor's rebuttal.</td>
</tr>
<tr>
<td>8.</td>
<td>Update permanent file as necessary (MAARS 3).</td>
</tr>
<tr>
<td>9.</td>
<td>Determine the need for issuance of other related reports (e.g., CAS noncompliance report and/or business system deficiency report).</td>
</tr>
<tr>
<td>10.</td>
<td>The supervisory auditor should validate dollars examined and costs questioned in the DMIS Audit Disposition Form to assure compliance with Agency instructions.</td>
</tr>
</tbody>
</table>