

Master Document – Audit Program

Activity Code 24010	Estimating System Audit
Version 9.12, dated June 2018	
Type of Service - Attestation Examination Engagement	
Audit Specific Independence Determination	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 34) prior to starting any work on this assignment.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g., 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.)</i></p>	
B-01	Planning Considerations
<p>1. The objective of this audit is to examine the contractor’s compliance with the system criteria for an acceptable estimating system as prescribed in DFARS 252.215-7002, Cost Estimating System Requirements. As a part of that objective, auditors will:</p> <ul style="list-style-type: none"> • Obtain and document an understanding of relevant portions of the estimating system internal control over compliance sufficient to plan the audit and to assess control risk for compliance with the system criteria in DFARS 252.215-7002. • Report significant deficiencies/material weaknesses identified during the audit related to the contractor’s compliance with the system criteria in DFARS 252.215-7002. 	
<p>2. Although, the objective of this audit is to determine the contractor’s compliance with the DFARS criteria and to report significant deficiencies based on the DFARS definition of a significant deficiency, GAGAS requires auditors to include in the audit report, material weaknesses based on the auditing standards definitions. A significant deficiency based on the DFARS definition will also generally represent a material weakness in internal control as defined in the auditing standards. Therefore, the term significant deficiency/material weakness as used throughout the audit program refers to a deficiency meeting the DFARS definition of a significant deficiency and the auditing standards definition of a material weakness.</p>	
<p>3. GAGAS also require auditors to report, based on the work performed, deficiencies, or a combination of deficiencies, in internal control that are less severe than material weaknesses (and, hence, also less severe than a significant deficiency as defined by the DFARS), yet important enough to merit the attention of those charged with governance (i.e., responsible contractor management officials). Auditors are not required to design audit procedures to identify these less severe deficiencies.</p>	

Master Document – Audit Program

<p>However, if disclosed during the audit, the less severe deficiencies should be included in the audit report. Appropriate language and presentation are included in the estimating system audit report shell.</p>
<p>4. If the entity is a Non-profit, Federally Funded Research and Development Center (FFRDC) (excluding those operated by Educational Institutions), or State and Local Government, the auditor should modify the program to include specific procedures in accordance with the applicable OMB Circulars.</p>
<p>5. This program is designed to use a teaming approach that includes discussions among the audit team members regarding, for example, potential kinds of fraud and other noncompliances, and the major aspects of the audit (e.g., major estimating areas, understanding of the system, etc.). These discussions should generally include auditors from the offsite locations. Due to the complexities of this audit, significant upfront coordination with the contractor is required. Therefore, the program also includes a planning meeting with contractor personnel prior to the formal entrance conference to notify the contractor of the upcoming audit, request a list of price proposals, and to inquire about the locations of the various estimating functions to determine if coordination with other DCAA offices is necessary. During the planning meeting, the audit team should schedule the entrance conference and request that the contractor provide a general overview of the system at the entrance conference. Another important aspect of this audit is that the contractor provides detailed walk-throughs/demonstrations of its system.</p>
<p>6. Because of the importance of timely communication of deficiencies, in some cases, it may be appropriate to issue a deficiency report on a significant deficiency/material weakness on a real-time basis prior to completion of the audit. In those cases, a separate assignment should be set up using the Deficiency Report activity code. Establishment of the Deficiency Report Assignment should not occur until there is sufficient evidence that a significant deficiency/material weakness exists and the audit team has fully developed the elements of a finding for the deficiency (see CAM 10-409). Whether to issue a deficiency report during the course of the audit is a matter of auditor judgment, depending on the specific circumstances.</p>
<p>7. Generally, performance of this audit should occur every three years or more often if risk warrants.</p>
<p>8. Contractors that do not have DoD contracts (i.e., contractors that are 100 percent reimbursable) are not contractually required to comply with the DFARS criteria. Nevertheless, the DFARS criteria are suitable standards to use in determining the acceptability of any Government contractor's estimating system. If this audit program is used for contractors that have only non-DoD contracts, the language in the audit report shell will be need to be tailored accordingly. FAOs needing assistance in tailoring the audit report should coordinate with the region and Headquarters PAS.</p>
References
DFARS 215.407-5-70, Disclosure, Maintenance, and Review Requirements (Estimating Systems)
DFARS 252.215-7002, Cost Estimating System Requirements

Master Document – Audit Program

DFARS 215.408, Solicitation provisions and contract clauses
CAM 5-500, Audit of Contractor Budget and Planning System Internal Controls
CAM 5-1200, Audit of Estimating System Internal Controls
CAM 9-303, Contractor Estimating Methods and Procedures-Cost Estimates
CAM 10-400, Audit Reports on Operations and Internal Control (System Audits)

B-01	Preliminary Steps	W/P References
Version 9.12, dated June 2018		
<p>1. Research and Planning</p> <p>The audit report will report on the contractor’s compliance with the system criteria <u>during a period of time</u>, consistent with the attestation reporting standards. The period covered should limit the elapse of time between the period in which the estimates were developed and the issuance of the report to the extent possible. For example, the audit team may decide to wait until it has obtained and documented the understanding of the system before finalizing the period covered by the audit. Accordingly, the team may adjust the timing of some of the planning steps below.</p>		
<p>a. Review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.</p>		
<p>b. Determine if the contractor is a business subject to estimating system disclosure, maintenance, and review requirements as defined in DFARS 252.215-7002(c), titled “applicability”.</p>		
<p>c. Review the permanent file/prior assignments and document:</p>		
<p>1) Audit leads and other issues affecting this assignment; e.g., lack of contractor support for pricing proposals and fraud referrals made or in process (DCAA Form 2000).</p>		
<p>2) Other relevant information to include environmental factors, the nature of the entity, and changes from the prior period. This information may be available in the contractor’s annual Form 10-K report, quarterly Form 10-Q report, Interim Form 8-K reports (if applicable - to cover special material events that occur between 10-K and 10-Q filings), and its annual report to shareholders.</p> <p>3) If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of</p>		

Master Document – Audit Program

<p>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.</p> <p>Note – (Not all of the following examples will be relevant in each audit. Auditors should document information relevant in the specific circumstances based on a review of the permanent files, prior assignments and the sources discussed in the paragraph above.) Environmental factors include industry conditions, such as the competitive environment, supplier and customer relationships, and technological developments; the regulatory environment encompassing among other matters, the legal and political environment, and environmental requirements affecting the industry and the entity; and other external factors, such as general economic conditions. The nature of the entity refers to the entity’s operations, its ownership, governance, and the way the entity is structured. An understanding of the nature of an entity enables the auditor to understand the proposed costs and the estimating methods used. Identifying significant changes in the environment and entity from prior periods is important in gaining a sufficient understanding of the entity to identify and assess risks of material misstatements and noncompliances.</p> <p>Note: Other audits may have similar information (e.g., accounting system audit). To avoid duplication of effort, auditors should incorporate any current and relevant information from those audits into this section.</p>	
<p>4) Review prior estimating system audits (24010), deficiency reports related to the estimating system, and if applicable, Survey of Contractor’s Organization, Accounting System and System of Internal Controls (ICQ) and document the impact to this audit.</p>	
<p>5) Does a current 11070 Accounting System audit exist? If so, briefly summarize the results of that audit and assess its impact on the contractor’s estimates, based on historical costs. If not, discuss with the supervisor the need to perform a separate assignment.</p>	
<p>6) Document the results and impact of any other relevant audits on this audit.</p>	
<p>7) Document, if applicable, any CAS noncompliances that may affect the processes and internal control related to compliance with the DFARS criteria.</p>	
<p>8) Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the</p>	

Master Document – Audit Program

<p>following procedures:</p> <ol style="list-style-type: none"> a. During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are 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.) 	
<p>9) Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <ol style="list-style-type: none"> a. During the entrance conference: <ul style="list-style-type: none"> • Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit. • Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result. b. If the review of the perm file or the contractor identifies relevant internal audits: <ul style="list-style-type: none"> • Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment. 	

Master Document – Audit Program

<ul style="list-style-type: none"> • 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. <p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> • Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.). • Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings. <p>d. Document the results of the inquiries including the response received from contractor’s for any request for access to internal audit reports. (If access was not granted this should include the contractor’s rationale or justification for not granting access).</p> <p>e. Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)</p>	
<p>2. Coordination with Contracting Officers</p>	
<p>a. Contact the ACO and PCOs involved in major proposals during the past 12 months, to discuss and obtain their concerns related to the contractor’s estimating system and compliance with the DFARS criteria. The FAO should also invite the ACO to the contractor system demonstrations. Document the results of this coordination and consider it during audit planning.</p>	
<p>b. Electronically transmit an acknowledgement/notification letter to the appropriate contracting officer notifying them of the commencement of the audit and expected completion date. Issue the acknowledgement/notification letter in accordance with the procedures in CAM 4-104.</p>	
<p>3. Planning Meeting with Contractor - Hold a planning meeting with the contractor to provide notification of the upcoming audit, inquire about the locations of the estimating departments to determine if coordination with other DCAA offices is necessary, to schedule the entrance conference, and to request the contractor prepare a general overview of their system for</p>	

Master Document – Audit Program

<p>presentation at the entrance conference. Request the following in order to identify the estimating areas needed for contractor demonstrations:</p> <p>Schedule of price proposals submitted to the government for the 12 month period ending [insert date] (generally the past 12 months). [The audit team should adjust the period either longer or shorter depending on the specific circumstances at the contractor.] Each listing should show the customer and proposed value for each major cost element (e.g., direct material, interdivisional, subcontracts, direct labor, ODC, indirect expenses, COM) with summary totals for both flexibly priced and fixed price (sub)contracts. Indicate by tick mark each element that was partly or entirely estimated using a cost estimating relationship (CER) as well as any based on standards.</p>	
<p>4. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be documented in the working papers.</p>	
<p>5. Initial Team Discussion</p>	
<p>a. Hold a preliminary planning meeting with the audit team (e.g., RAM, FAO Manager, Supervisor, Technical Specialists, and Auditors). Topics to discuss should include:</p> <ul style="list-style-type: none"> (1) relevant environmental factors and information related to the nature of the entity; (2) how to obtain and document the system understanding; (3) the objectives of the audit (primarily compliance with DFARS 252.215-7002); (4) coordination needed with other DCAA offices (e.g., CAC, Corporate offices, other locations where estimating functions are performed, FD, etc.). <p>b. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, the audit team should also discuss and identify potential noncompliances, due to error or fraud, which could materially affect the subject matter.</p> <p>The discussion should include</p> <ul style="list-style-type: none"> • relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), • relevant aspects of the contractor and its environment • risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, 	

Master Document – Audit Program

<p>and the propensity to rationalize misstatements)</p> <ul style="list-style-type: none"> • other known risk factors • the audit team’s understanding of relevant internal controls. • Inquiries to the contractor regarding its fraud management plans and controls. <p>Document fraud risk factors/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material noncompliance due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (http://gao.gov/products/GAO-12-331G). • DoDIG’s Contract Audit Fraud Scenarios and Resources website (http://www.dodig.mil/Fraud-Resources/ContractAudit/) <p>(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.)).</p>	
<p>6. Coordination with other FAOs - In cases where this examination covers estimating systems at multi-segment contractors, follow the guidance in CAM 5-103.2 and 5-110e. Auditing estimating systems at multi-segment contractors requires effective coordination among cognizant auditors to identify the audit responsibilities at each location to ensure appropriate audit coverage when contractor locations share components of the system, such as policies and procedures, common technologies (e.g., software) or common management. FAOs cognizant of segment locations should initiate assist audits from off-site locations as necessary. FAOs cognizant of off-site locations should not self-initiate audits of estimating systems. Coordinate effort needed with other DCAA offices (e.g., CAC, Corporate offices, assist audit offices, FD) as necessary.</p>	
<p>7. Identify Significant Estimating Areas - Review the universe of price proposals provided by the contractor for the period (Step 3), verify completeness and accuracy of selected proposed values (e.g., compare to price proposals audited list, verify with ACO/PCO records, etc.). Based on the risk information gathered in the preceding steps, as well as the following information, identify the significant areas of the contractor’s estimating system.</p>	

Master Document – Audit Program

<p>a. Identify price proposals in the universe that are subject to the estimating system clause (i.e. solicitations and contracts that require certified cost and pricing data are subject to the DFARS estimating system clause).</p>	
<p>b. Determine the materiality of each proposed cost element including those based on cost estimating relationships or standards.</p>	
<p>c. For each cost element listed that was subjected to audit, summarize the approximate values for questioned and unsupported costs.</p>	
<p>d. Identify those proposals, if any, that were determined to be inadequate and briefly document the reason(s).</p>	
<p>e. Review recent history (if available) of proposed direct and indirect rates compared to actual rates.</p>	
<p>8. Entrance Conference and System Demonstrations</p>	
<p>a. Preparation of the Contractor Notification Letter and the Contractor Request enclosure. Draft the Contractor Notification Letter using the shell at working paper 11b. The proforma Contractor Notification Letter contains a list of information needed from the contractor to perform the audit and identifies the key areas of the estimating system addressed during system demonstrations.</p>	
<p>b. Entrance Conference. The purpose of this meeting is to:</p> <ol style="list-style-type: none"> (1) Provide the Contractor Notification Letter and discuss the information being requested from the contractor; (2) Discuss the purpose of the audit and expectations such as the estimating system demonstration requirements, the level of detail that should be covered in the demonstrations, who should participate in the meetings, the length and location of the meetings, and other pertinent information; (3) Have the contractor provide a general overview of the estimating system and processes; and (4) Set up the dates for demonstrations on the key processes of those areas identified. The demonstrations should be held early in the process. (5) Follow up with contractor management on corrective actions that address previous DCAA audit findings and recommendations. (6) Follow up with contractor management regarding other studies or audits (e.g., internal auditors, consultants, Independent Public Accountants) that impact the subject matter under audit. 	
<p>c. System Demonstrations/Documenting an Understanding of the Estimating System. (The entire team should attend the demonstrations, if possible.)</p> <p>The purpose of the entrance conference and contractor demonstrations is to obtain and document an understanding of the contractor's</p>	

Master Document – Audit Program

<p>estimating system internal controls related to compliance with the DFARS criteria. During the demonstrations the audit team should make detailed notes on the contractor’s system descriptions, policies, and procedures, etc. as needed to document their understanding of the system and should take full advantage of the demonstrations to ask questions to ensure that they have a sufficient understanding. To the extent responsible personnel (and processes) differ across significant areas; the demonstrations may be a series of separate walk-throughs attended by various sets of responsible contractor personnel. The documentation will be finalized in section B-01, step 8, below.</p> <p>Note - <u>Inquiry alone is not sufficient to obtain an understanding of the contractor’s internal controls.</u> Procedures to obtain an understanding of estimating system internal controls include inquiries of contractor personnel, observing the application of specific controls, inspecting documents and reports, and performing walk-throughs of the system (including tracing estimates through the various processing steps).</p> <p>As requested in the contractor notification letter, the contractor should provide and walk the audit team through the requested information and demonstrate how each of the key estimating processes/functions are accomplished and how the contractor ensures compliance with the DFARS 252.215-7002 system criteria.</p>	
<p>d. Document any risks the audit team identified during the entrance conference or contractor demonstrations.</p>	
<p>9. Finalizing/Summarizing the Understanding of the Estimating System</p>	
<p>This step will complete the accomplishment of the first objective of the audit. It is critical since the documented understanding will serve as a basis for planning the audit, to identify types of potential noncompliances, to consider factors that affect the risk of material noncompliances and to design audit procedures to test contractor compliance with DFARS 252.215-7002.</p>	
<p>a. Using the information obtained during the entrance conference and system demonstrations, finalize and document your understanding of the contractor’s estimating system in W/P B-02, and cross-reference it to detailed descriptions and information obtained and documented during the contractor’s demonstrations (e.g., flowcharts, policies and procedures, desk procedures, screenshots, etc.). As reflected on the W/P B-02 framework, the documented understanding should address each of the 17 DFARS criteria as well as the five internal control components described in CAM 5-102c as identified below. Note: the Estimating System Audit Information Request (W/P 11b) includes Items (2) – (5).</p>	

Master Document – Audit Program

<p>(1) <u>Control Environment</u> – Obtain the most recent audit assessment of the control environment during the initial planning steps. Update working papers for any additional information related to the assessment of the control environment and the potential impact on the estimating system.</p>	
<p>(2) <u>Contractor’s Risk Assessment</u> - Document how the contractor identifies and addresses risk associated with price proposal estimates in which cost or pricing data are required.</p>	
<p>(3) <u>Contractor Monitoring</u> - Document the contractor’s activities to monitor the overall operation of the estimating process. (Note: Periodic monitoring is also one of the DFARS criteria. See C-01)</p>	
<p>(4) <u>Information System and Communication</u> - Document the contractor’s process for initiating, processing, authorizing, controlling, reporting, and communicating information related to each type of significant estimate.</p>	
<p>(5) <u>Control Activities</u> – The control activities are generally those processes the contractor uses to ensure compliance with each of the criteria in the DFARS 252.215-7002.</p>	
<p>b. Prepare a high-level summary of your understanding of the contractor’s estimating system to provide to the contractor for confirmation of accuracy. After the detailed (W/P B-02) and summary understanding of the contractor’s estimating system (W/P 11c) have been documented and reviewed by your supervisor, provide the summary to the contractor and obtain written confirmation from the contractor that the understanding is accurate.</p>	
<p>c. Summarize the high-risk areas identified during the demonstrations and other preliminary steps so that they can be addressed during the team discussion below.</p>	
<p>10. <u>Interim Team Discussion and Tailoring of Audit Steps</u></p>	
<p>a. Hold an interim planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Technical Specialist and Auditors) and discuss results of preliminary planning, entrance conference information, risks identified, and the understanding of the system and areas of potential impact (preliminary steps performed in section B-01, steps 1 through 8). This should be a detailed discussion and include specifics on which cost elements/areas to test, what attributes to test for, how much testing should occur based on risk, and how to select the applicable samples and test each selected cost element/area. Assess the need to obtain an updated schedule of price proposals (see Step 3).</p>	
<p>b. The team should revisit relevant sections of the IG Handbook on <i>Fraud Indicators for Contractors</i> and discuss risk factors identified subsequent to the initial team discussion that indicate potential fraud, illegal acts, or</p>	

Master Document – Audit Program

<p>violations of contracts that could have a material effect on government price proposals, and develop audit steps in response. If no risk factors are identified, document this in working paper B.</p>	
<p>c. The team should also consider the need for specialist assistance, if any, and document on working paper B-03.</p>	
<p>11. Initial Risk Assessment. Document on W/P B, the risk factors and any fraud indicators identified during the team discussions and other risk assessment procedures. Design audit procedures (i.e., tailor (add/delete/modify) the audit steps) to meet the audit objectives and provide reasonable assurance of detecting fraud, and other noncompliances with applicable laws and regulations that could have a material effect on the audit.</p> <p>Note: The audit program divides into sections to assist in tailoring the audit to match the unique risk circumstances at each contractor. Auditors are encouraged to perform simultaneous testing across the sections in order to maximize efficiency.</p>	
<p>12. Select a representative sample of price proposals for which the contractor was required to submit certified cost or pricing data and identify those that were subject to audit. The selected solicitations should contain the DFARS clause, or be subject to certified cost or pricing data requirements, for the proposals selected for audit (Note: See step 7 above). Obtain the files supporting the contractor’s estimates for the significant areas identified. These files will be used to test the key processes and controls to determine if the contractor’s estimating system complies with the system criteria in DFARS 252.215-7002.</p> <p>Note: Use testing performed in proposal audits to help determine compliance with the DFARS criteria.</p>	

<p>C-01 Monitoring and Management Reviews</p>	
<p>Version 9.12, dated June 2018</p>	<p>W/P Reference</p>
<p>1. Determine if the contractor’s estimating system provides for periodic monitoring (e.g., management reviews) of the system, as appropriate (DFARS 252.215-7002(d)(4)(xii).</p> <p>Note: The contractor’s monitoring of its estimating system should include considering whether controls are operating as intended and that they are modified as appropriate for changes in conditions. The contractor’s monitoring process may include many forms such as management reviews, internal audits, or personnel performing similar activities and can be accomplished through ongoing monitoring activities (which are built into the contractor’s normal recurring activities), separate evaluations, or a combination of the two. Auditors</p>	

Master Document – Audit Program

<p>should consider all monitoring activities in determining compliance with this DFARS Criterion. What is sufficient will depend on the circumstances (e.g., size and complexity of the contractor’s operations). Ongoing monitoring activities of small and midsized contractors are more likely to be informal.</p>	
<p>a. Determine if the contractor’s policies and procedures require periodic monitoring (e.g., management reviews) of its estimating system and that the timeframes and/or guidelines appear sufficient given the complexity and size of the contractor’s operations to determine that controls are operating as intended and that they are modified as appropriate. (Generally, reference your observations and inquiry during the walk-through)</p>	
<p>b. Evaluate management review and other monitoring activities for the period covered by the audit to determine if the contractor is performing reviews in accordance with time frames and guidelines established in the policies and procedures.</p>	
<p>c. Evaluate the documentation supporting the contractor’s internal review of, and accountability for, the acceptability of the estimating system, including comparisons of projected results to actual results, and an analysis of any differences. Determine that the actual management review is consistent with the policy. (DFARS 252.215-7002(d)(4)(xiii))</p>	
<p>d. Discuss and confirm findings with the contractor.</p>	
<p>e. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.</p>	

E-01	Estimating Direct Labor Rates	
Version 9.12, dated June 2018		W/P Reference
<p>1. Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:</p>		
<p>2. Review and evaluate the written description that assigns responsibility for preparing, reviewing, and approving the direct labor rate estimates. Identify the personnel responsible for calculating the direct labor rate estimates for the selected proposals. Verify that personnel have sufficient training,</p>		

Master Document – Audit Program

<p>experience, and guidance to develop the estimates in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))</p>	
<p>3. Review the written basis of estimate. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the base direct labor rate estimates and escalation. (DFARS 252.215-7002(d)(4)(iv))</p>	
<p>4. Verify that the estimators appropriately considered historical experience (e.g., trend analysis of actual direct labor rates by category). Verify that the estimators appropriately integrated information from other management systems (e.g., payroll system, IT). (DFARS 252.215-7002(d)(4)(ix, x & xi))</p>	
<p>5. Verify evidence that adequate supervision occurred throughout the development of the estimated direct labor rates (e.g., signature on worksheet(s), documented guidance discussions). Determine if errors were timely detected and corrected. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. (DFARS 252.215-7002(d)(4)(v & vii))</p>	
<p>6. Determine if the estimating policies and actual practices are sound and are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which the direct labor rates were subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:</p>	
<p>a. The direct labor rate calculation method and presentation complied with the solicitation and the FAR.</p>	
<p>b. The proposed direct labor rates are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi & viii))</p>	
<p>c. Appropriate steps were taken to ensure that proposed direct labor rates are reasonable and otherwise comply with FAR 31.205-6 (e.g., periodically benchmarked to valid compensation survey).</p>	
<p>d. Reasonable steps were taken to ensure direct labor rate categories comply with CAS 418, if applicable (e.g.,</p>	

Master Document – Audit Program

periodic verification that functions in each labor category are homogeneous).	
7. Discuss and confirm findings with the contractor.	
8. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.	

F-01	Estimating Direct Labor Hours	
Version 9.12, dated June 2018		W/P Reference
1. Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:		
2. Review and evaluate the written description that assigns responsibility for preparing, reviewing, and approving the direct labor hour estimates. Identify the personnel responsible for calculating the direct labor hour estimates. Verify that personnel have sufficient training, experience, and guidance to develop the estimates in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))		
3. Review the written basis of estimate. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the proposed direct labor hours and skill mix. (DFARS 252.215-7002(d)(4)(iv))		
4. Verify that the estimators appropriately considered historical experience (e.g., evidence of search for relevant history). Evaluate the rationale for any significant departures from relevant history. Verify that the estimators appropriately integrated information from other management systems (e.g., accounting system, labor system, IT). (DFARS 252.215-7002(d)(4)(ix & xi))		
5. Verify evidence that adequate supervision occurred throughout the development of the estimated direct labor hours and skill mix (e.g., signature on worksheet(s), documented guidance discussions). Determine if errors were timely detected and corrected. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. (DFARS 252.215-7002(d)(4)(v & vii))		

Master Document – Audit Program

<p>6. Determine if the estimating policies and actual practices are sound and are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which the direct labor hours were subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:</p>	
<p>a. The estimating method and presentation complied with the solicitation and the FAR.</p>	
<p>b. The proposed direct labor hours are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi & viii))</p>	
<p>c. If relevant historical hours were used, the estimating team used appropriate analytical methods for arriving at the estimated hours (e.g., improvement curve). Verify that the contractor took reasonable steps to properly identify and remove historical non-recurring activities. (DFARS 252.215-7002(d)(4)(x))</p>	
<p>d. If relevant historical hours were used, reasonable steps were taken to ensure historical direct labor hours were reliable (e.g., periodic internal labor audits/floorchecks).</p>	
<p>e. If relevant history was not available, the estimating method was reasonably sound and, when appropriate, adequately supported by an internal comparison of past projections using the chosen method and actual results. (DFARS 252.215-7002(d)(4)(xiii))</p>	
<p>f. Sound rationale was used to estimate the proposed labor skill mix.</p>	
<p>7. Discuss and confirm findings with the contractor.</p>	
<p>8. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.</p>	

G-01	Estimating Using Standards
Version 9.12, dated June 2018	W/P Reference

Master Document – Audit Program

<p>1. Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:</p>	
<p>2. Review and evaluate the written description that assigns responsibility for preparing, reviewing, and approving the standards. Identify the personnel responsible for preparing the standards for the selected price proposals. Verify that personnel have sufficient training, experience, and guidance to develop the estimates in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))</p>	
<p>3. Review the written basis of estimate and the overall description of the standard-setting process. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing and updating the standard cost estimates. (DFARS 252.215-7002(d)(4)(iv))</p>	
<p>4. Verify that the standards are based on relevant historical experience. Evaluate the rationale for any significant departures from relevant history. Verify that the estimators appropriately integrated information from other management systems (e.g., accounting system, IT). (DFARS 252.215-7002(d)(4)(ix & xi))</p>	
<p>5. Verify evidence that adequate supervision occurred throughout the development of the standards (e.g., review signature on worksheet(s), documented guidance discussions). Determine if errors were timely detected and corrected. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. (DFARS 252.215-7002(d)(4)(v & vii))</p>	
<p>6. Determine if the policies and actual practices for establishing and updating standards are sound and are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which the standards were subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:</p>	
<p>a. The frequency and method by which standards are evaluated and updated will result in reasonably accurate standards that are responsive to the solicitation and compliant with the FAR. [Refer to CAM B-102 in</p>	

Master Document – Audit Program

determining whether to request specialist assistance, and if needed, to formulate the questions to be addressed by the specialist.]	
b. The proposed standards are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi & viii))	
c. The estimated variances and actual variances are periodically compared and differences appropriately analyzed. (DFARS 252.215-7002(d)(4)(x & xiii))	
d. The standard inputs are reasonably uniform across government and commercial contracts. If not uniform, design tests to verify that standard inputs predominately used on commercial contracts are not set artificially low (i.e., standards set relatively low for labor tasks predominately used for commercial contracts creating a variance that is shared by all contract types).	
e. The proposed standards match the prevailing published standards.	
7. Discuss and confirm findings with the contractor.	
8. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.	

I-01	Estimating Interdivisional Work Orders (IWO)	
	Version 9.12, dated June 2018	W/P Reference
	1. Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:	
	2. Review and evaluate the written description that assigns responsibility for preparing, reviewing, and approving the IWO estimate. Verify that personnel have sufficient training, experience, and guidance to ensure the IWO estimate is in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))	
	3. Verify that the proposal clearly identifies the proposed value as having been derived from an interdivisional entity and that it is clear that it is either based on cost or price. (DFARS 252.215-7002(d)(4)(iv))	

Master Document – Audit Program

<p>4. Determine if the estimating policies and actual practices are sound and are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which the IWO was included in the subject of audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:</p>	
<p>a. The proposed IWO is consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi & viii))</p>	
<p>b. If the IWO was based on other than cost, the requirements of FAR 31.205-26(e) were met (i.e., it is the established practice of the transferring organization to price inter-organizational transfers at other than cost, and the item being transferred qualifies for an exception to the certified cost or pricing data requirement in FAR 15.403-1(b)). If pricing is based on adequate price competition, verify that the contractor referenced the competitive bids, or provided them with the proposal. If pricing is not based on adequate competition, verify that the contractor referenced appropriate sales data (i.e., excluding unrelated companies and sales to government), or provided appropriate sales data with the proposal.</p>	
<p>c. If the IWO was based on cost, the proposal included a separate breakdown of the IWO cost elements in accordance with Table 15-2 at FAR 15.408.</p>	
<p>d. The contractor appropriately demonstrated that the decision to make the item (i.e., IWO) rather than buy the item in the competitive market results in a fair and reasonable price (i.e., make or buy analysis, see FAR 15.407-2).</p>	
<p>5. Discuss and confirm findings with the contractor.</p>	
<p>6. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.</p>	

M-01	Estimating Direct Material	
Version 9.12, dated June 2018		W/P Reference

Master Document – Audit Program

<p>1. Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:</p>	
<p>2. Review and evaluate the written description that assigns responsibility for preparing, reviewing, and approving the direct material estimate. Identify the personnel responsible for preparing the proposed direct material for the selected price proposals as well as the make/buy committee, if applicable. Verify that personnel have sufficient training, experience, and guidance to ensure direct material is proposed in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))</p>	
<p>3. Review the written basis of estimate. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the proposed direct material prices, kinds and quantities, as well as any significant additive factors (e.g., scrap, rework, spoilage). (DFARS 252.215-7002(d)(4)(iv))</p>	
<p>4. Verify that the estimators appropriately considered historical experience (e.g., historical vendor pricing, historical scrap, learning curves). Verify that estimators appropriately integrated information from other management systems (e.g., accounting system, IT). (DFARS 252.215-7002(d)(4)(ix, x, & xi))</p>	
<p>5. Verify evidence that adequate supervision occurred throughout the development of the estimated direct material costs (e.g., signature on worksheet(s), documented guidance discussions). Determine if errors were timely detected and corrected. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. (DFARS 252.215-7002(d)(4)(v & vii))</p>	
<p>6. Determine if the estimating practices are sound and are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which direct material was subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:</p>	

Master Document – Audit Program

a) The estimating method and presentation complied with the solicitation.	
b) The proposed direct material is consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi))	
c) The proposal included a consolidated BoM in accordance with Table 15-2 at FAR 15.408.	
d) The Bill of Material (BoM) includes only material that is required for contract performance and provides protection against omitted material (e.g., contractor compiled BoM directly from the set of completed management-approved engineering drawings, employee not involved in BoM compilation traced a sample of entries on BoM to approved drawings, etc.). (DFARS 252.215-7002(d)(4)(viii))	
e) The estimated direct material is fair and reasonable. For a selection of significant direct material items, perform the following.	
i. If appropriate, obtain the make/buy documentation and evaluate the rationale using the criteria at FAR 15.407-2.	
ii. Verify that the contractor considered existing inventory supplies.	
iii. Verify that the contractor conducted appropriate market research to discover the extent of competition.	
iv. Verify quote solicitations were sent to an appropriate number of viable vendors to ensure adequate price competition (e.g., > 2 when appropriate). Verify that quote solicitations stated the proper quantity range based on the needs of the instant contract and others requiring the item during the same time period.	
v. Identify any quote solicitations for which no bid was received. Verify that the contractor appropriately followed-up in order to maximize competition.	
vi. Verify that the contractor properly identified all purchases with the same vendor and attempted to attain best pricing through volume and quantity discounts.	
vii. Verify that the contractor timely identified the need for certified cost or pricing data for those purchases exceeding the TINA threshold and not meeting an	

Master Document – Audit Program

exemption at FAR 15.403.	
viii. Verify that the contractor attempted to negotiate a price reduction, and if so, reflected the known or reasonably anticipated price reduction in the estimate.	
ix. Verify the contractor performed commercial determinations for assertions made at the prime level or of its subcontractor’s/suppliers for commercial items (e.g., sales to commercial customers, commercial pricing).	
7. Discuss and confirm findings with the contractor.	
8. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.	

N-01	Estimating Indirect Expenses	
Version 9.12, dated June 2018		W/P Reference
1.	Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:	
2.	Review and evaluate the written description that assigns responsibility for preparing, reviewing, and approving the budget and the indirect rates. Identify the personnel responsible for preparing the budget and rates for the selected price proposals. Verify that personnel have sufficient training, experience, and guidance to develop the estimates in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))	
3.	Review the description of the budget process and the basis of estimate in the selected price proposals. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the proposed indirect expenses. (DFARS 252.215-7002(d)(4)(iv))	
4.	Verify that the personnel responsible for budget development appropriately considered historical experience (e.g., yearly trend analysis). Evaluate the rationale for any significant departures from relevant history. Verify that the contractor’s budget team appropriately integrated information from other management systems (e.g., accounting system, IT). (DFARS	

Master Document – Audit Program

252.215-7002(d)(4)(ix, x & xi))	
5. Verify evidence that adequate supervision occurred throughout the development of the budget on which the indirect estimates were based as well as the indirect rate calculation process (e.g., documented guidance discussions). Determine if errors were timely detected and corrected. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. (DFARS 252.215-7002(d)(4)(v & vii))	
6. Determine if the budget/estimating practices are sound and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which indirect expenses were subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:	
a) The proposed indirect expenses are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi))	
b) Reasonable steps were taken to properly account for anticipated unallowable expenses in the budget and that unallowable expenses were properly accounted for in the rate calculations. (FAR Part 31)	
c) Reasonable steps were taken to protect against expense duplication and omission. (DFARS 252.215-7002(d)(4)(viii))	
i. Verify that the budget was reviewed to identify possible double counting and omissions (e.g., side by side comparison of expense accounts with most recently completed fiscal period’s actual expense accounts).	
ii. Verify that reasonable steps were taken to ensure that indirect rate calculations matched the current operating budget (e.g., employee not involved in rate calculation process performed reconciliation of amounts used for rate calculations to budgetary amounts, as adjusted).	
iii. Inquire about the contractor’s method for determining the completeness of the significant allocation bases. Evaluate any supporting documentation based on risk.	

Master Document – Audit Program

d) If relevant historical expenses were used to develop the budget, determine if the budget team used appropriate analytical methods for arriving at budgeted amounts (e.g., regression analysis). Verify that historical non-recurring activities and associated expenses were properly identified and removed. (DFARS 252.215-7002(d)(4)(x))	
e) Evaluate the contractor’s internal review/monitoring of the operating budget, including comparisons of projected results to actual results, and the analysis of any differences (i.e., regular and periodic variance analysis). Obtain internal monitoring documentation at a point in time prior to price proposal development, evaluate the rationale and conclusions, and verify that the conclusions were timely reflected in the proposed indirect rates. [Complete this step in conjunction with Z-01, Step 2] (DFARS 252.215-7002(d)(4)(xiii))	
f) Determine if there was an impending organizational change at the time of proposal development. If so, verify that the impact of the organizational change was properly and timely reflected in the proposed indirect rates. (DFARS 252.215-7002(d)(4)(xiv))	
g) Verify that personnel periodically evaluate the appropriateness of the indirect rate compositions (e.g., pool expenses are homogeneous, causal/beneficial relationship between pool and base, CAS 410/418, etc.).	
h) Verify that proposed out year rates are supported by appropriate trend and/or budgetary data (See FAR 15.408.II.C).	
7. Discuss and confirm findings with the contractor.	
8. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.	

O-01	Other Direct Costs (ODC)	
Version 9.12, dated June 2018		W/P Reference
1. Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:		

Master Document – Audit Program

<p>2. Review and evaluate the written description that assigns responsibility for preparing, reviewing, and approving the ODC estimate. Identify the personnel responsible for preparing the proposed ODC for the selected price proposals as well as the make/buy committee, if applicable. Verify that personnel have sufficient training, experience, and guidance to ensure direct material is proposed in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))</p>	
<p>3. Review the written basis of estimate. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the ODC. (DFARS 252.215-7002(d)(4)(iv))</p>	
<p>4. Verify that the estimators appropriately considered historical experience and used appropriate analytical procedures. Verify that the estimators appropriately integrated information from other management systems (e.g., accounting system, IT). (DFARS 252.215-7002(d)(4)(ix, x, & xi))</p>	
<p>5. Verify evidence that adequate supervision occurred throughout the development of the ODC estimate (e.g., signature on worksheet(s), documented guidance discussions). Determine if errors were timely detected and corrected. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. (DFARS 252.215-7002(d)(4)(v & vii))</p>	
<p>6. Determine if the estimating practices are sound and are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which ODC was subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:</p>	
<p>a) The estimating method and presentation complied with the solicitation and applicable FAR.</p>	
<p>b) The proposed indirect expenses are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi & vii))</p> <p>[Insert additional steps below based on the specific risk associated with the ODC type and amount]</p>	

Master Document – Audit Program

7. Discuss and confirm findings with the contractor.	
8. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.	

P-01	Estimating Using Cost Estimating Relationships (CER) or Parametric Estimating	
Version 9.12, dated June 2018		W/P Reference
1. Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:		
a. Review and evaluate the written description that assigns responsibility for preparing, reviewing, and approving the CER. Identify the personnel responsible for preparing the proposed CER for the selected price proposals. Verify that personnel have sufficient training, experience, and guidance to ensure the CER is proposed in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))		
b. Review the written basis of estimate. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the CER. (DFARS 252.215-7002(d)(4)(iv))		
c. Verify that the CER is based on relevant historical experience. Evaluate the rationale for any significant departures from relevant history. Verify that the estimators appropriately integrated information from other management systems (e.g., accounting system, IT). (DFARS 252.215-7002(d)(4)(ix & xi))		
d. Verify evidence that adequate supervision occurred throughout the development and application of the CER (e.g., signature on worksheet(s)). Determine if errors were timely detected and corrected. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. (DFARS 252.215-7002(d)(4)(v & vii))		
2. Determine if the practices for establishing and updating the		

Master Document – Audit Program

<p>CER are sound and are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which estimates based on CERs were subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:</p>	
<p>a) The frequency and method by which the CER is evaluated and updated will result in reasonably accurate estimates for prospective contracts. [Refer to CAM D-102 in determining whether to request specialist assistance, and if needed, to formulate the questions to be addressed by the specialist.]</p>	
<p>b) The proposed CER is consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi))</p>	
<p>c) A comparison of projections using the CER and the actual results is periodically accomplished. (DFARS 252.215-7002(d)(4)(xiii))</p>	
<p>d) The estimating team used appropriate analytical methods to arrive at the CER (e.g., regression with sound correlation). Verify that historical non-recurring activities were properly identified and removed. (DFARS 252.215-7002(d)(4)(x))</p>	
<p>e) Reasonable steps were taken to ensure that the CER calculation does not result in a duplication of direct or indirect estimated costs included elsewhere in the proposal. (DFARS 252.215-7002(d)(4)(viii))</p>	
<p>3. Discuss and confirm findings with the contractor.</p>	
<p>4. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.</p>	

S-01	Estimating Subcontract Costs	
Version 9.12, dated June 2018		W/P Reference
<p>1. Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:</p>		

Master Document – Audit Program

<p>2. Review and evaluate the written description that assigns responsibility for evaluating, reviewing, and approving the proposed subcontract costs. Identify the personnel responsible for price analysis, cost analysis, subcontract price negotiation, as well as the final review and approval of the subcontract estimate. Verify that personnel have sufficient training, experience, and guidance to ensure that subcontract costs are proposed in accordance with the established procedures. Consider whether training includes a periodic refresher on FAR 15.403 requirements for providing certified cost or pricing data, as well as Table 15-2 under FAR 15.408. (DFARS 252.215-7002(d)(4)(i, ii & iii))</p>	
<p>3. Review the written basis of estimate. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the proposed subcontract cost. (DFARS 252.215-7002(d)(4)(iv))</p>	
<p>4. Verify evidence that adequate supervision occurred throughout the price analysis, cost analysis (if required), and negotiation process (e.g., signature on worksheet(s), documented guidance discussions). Determine if errors were timely detected and corrected. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. (DFARS 252.215-7002(d)(4)(v & vii))</p>	
<p>5. Determine if the subcontract estimating practices are sound and are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which proposed subcontracts were subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:</p>	
<p>a) The proposed subcontract costs are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi & viii))</p>	
<p>b) Reasonable attempts were made to award the subcontract based on adequate price competition (e.g., conducted appropriate market research to identify potential vendors, sent multiple solicitations to viable competitors).</p>	
<p>c) The price analysis was clearly documented and conclusions were based on sound rationale. Where</p>	

Master Document – Audit Program

appropriate, the price analysis applied analytical methods and/or relied on historical experience, including historical vendor pricing information. (DFARS 252.215-7002(d)(4)(ix & x))	
d) When applicable, the cost analysis was clearly documented and conclusions were based on sound rationale. Determine if the evaluation method is structured (e.g., procedural evaluation steps) to promote consistent application of estimating techniques. Verify that the contractor properly evaluated subcontractor proposed profit and verify that profit was reduced proportionate to any identified questioned costs. (DFARS 252.215-7002(d)(4)(vi))	
e) The price analysis and cost analysis was submitted with the proposal. If not, identify the contractor’s pattern of accomplishment and the underlying reasons for not including the analyses with its proposals. (DFARS 252.215-7002(d)(4)(xv))	
f) The estimate reflected any known or reasonably anticipated price reduction due to continued negotiations with the subcontractor.	
6. Discuss and confirm findings with the contractor.	
7. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.	

T-01	Estimating Cost of Money (COM)	
Version 9.12, dated June 2018		W/P Reference
1. Based on your understanding of the policies and procedures obtained during the demonstrations, determine whether the policies comply with the DFARS criteria and whether the actual practices (using the proposals selected in B-01) comply with the policies as you perform the following steps:		
2. Review and evaluate the written description that assigns responsibility for preparing, reviewing, and approving the proposed COM. Identify the personnel responsible for preparing the proposed COM for the selected price proposals. Verify that personnel have sufficient training, experience, and guidance to ensure the COM is proposed in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))		

Master Document – Audit Program

<p>3. Review the written basis of estimate in the price proposal. Determine if the description sufficiently identifies and documents the sources of data and the estimating methods and rationale used in developing the proposed COM. (DFARS 252.215-7002(d)(4)(iv))</p>	
<p>4. Verify that the personnel responsible for preparing the proposed COM appropriately considered historical experience (e.g., comparison to prior period actual COM factors). Verify that the estimating team appropriately integrated information from other management systems (e.g., accounting system, IT). (DFARS 252.215-7002(d)(4)(ix & xi))</p>	
<p>5. Verify evidence that adequate supervision occurred during the preparation of the proposed COM factors (e.g., signature on worksheet(s), signature on CASB-CMF). Determine if errors were timely detected and corrected. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. (DFARS 252.215-7002(d)(4)(v & vii))</p>	
<p>6. Determine if the estimating practices are sound and are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price. (DFARS 252.215-7002(d)(4)(xvi & xvii)) For those proposals in which COM was subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine that the policies and practices reasonably ensure that:</p>	
<p>a. The proposed COM is consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). (DFARS 252.215-7002(d)(4)(vi))</p>	
<p>b. Steps were taken to ensure the proposed COM factors and bases were consistent with the CASB-CMF submission and that costs were properly classified for arriving at a profit objective via the Weighted Guidelines method.</p>	
<p>c. Steps were taken to protect against expense duplication and omission (e.g., employee(s) not involved in COM calculation performed reconciliation of selected amounts on CASB-CMB to budgetary amounts and general ledger recordings, as appropriate). (DFARS 252.215-7002(d)(4)(viii))</p>	
<p>d. Steps were taken to ensure that key data on the CASB-CMF were current and accurate, including the interest rate, net book values, and allocation bases.</p>	

Master Document – Audit Program

7. Discuss and confirm findings with the contractor.	
8. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.	

Z-01	Proposal Updates	
	Version 9.12, dated June 2018	W/P Reference
	1. For those proposals selected that have been negotiated, verify significant estimates in the sampled proposals were based on a set of data and assumptions reasonably current given the date of actual negotiations. If not current, verify that the Contracting Officer was subsequently furnished a proper update prior to concluding negotiations. (DFARS 252.215-7002(d)(4)(xiv))	
	2. Discuss and confirm findings with the contractor.	
	3. Document the audit evaluation steps and conclusions. Discuss with the audit team and obtain supervisory approval.	

A-1	Concluding Steps	
	Version 9.12, dated June 2018	W/P Reference
	1. Team discussion. Hold a meeting with the audit team (e.g., RAM, Manager, Supervisor, Technical Specialists and Auditors) and discuss the issues identified in the audit and the impact on the conclusions and opinion in the audit report. Summarize the deficiencies by the applicable DFARS estimating system criteria. Distinguish between deficiencies that are considered a significant deficiency/material weakness and those that are less severe, but important enough to merit the attention of the responsible contracting officer and contractor management officials. In certain circumstances, including, the audit results only in less severe than significant deficiencies/material weaknesses, consider discussing withhold provisions under FAR 32.503-6 with the responsible contracting officer.	
	2. Summarize results and draft the audit report. The draft audit report should include all significant deficiencies/material weaknesses, even those reported in deficiency reports issued on a real-time basis under a separate assignment number during the course of the audit. For any such deficiencies, note the deficiency report number and date and the status of the deficiencies in the condition statement.	

Master Document – Audit Program

<p>If the audit disclosed deficiencies that are less severe than significant deficiencies/material weaknesses, but important enough to merit the attention of the responsible contractor management officials those should be included in a report Exhibit titled, “Deficiencies that Warrant Attention of the Contracting Officer”.</p>	
<p>3. Obtain supervisory review of the working papers, and draft audit results section of the audit report before discussions with the contractor.</p>	
<p>4. Auditors should document and communicate with the contracting officers upon the completion of our audit:</p>	
<p>a. Brief the contracting officer on significant questioned, unsupported , unresolved costs or other significant and/or complex findings/issues, and/or</p>	
<p>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.</p>	
<p>5. After obtaining DCAA management approval, hold and document the exit conference in accordance with CAM 4-304. Obtain the contractor’s reaction regarding all deficiencies included in the report, including any that are less severe than significant deficiencies/material weaknesses.</p>	
<p>6. Finalize the audit report and incorporate the contractor’s reaction and auditor’s response.</p>	
<p>7. If unsatisfactory conditions are noted, follow the guidance in CAM 4-800.</p>	
<p>8. Update the permanent file in accordance with CAM 4-405b. A copy of the documented understanding of the estimating system should be filed in the permanent file as well as a summary of the identified deficiencies.</p>	
<p>9. Brief the audit teams performing pricing proposal audits on the results of the estimating system audit and the effect on the pricing proposal audits.</p>	