

Master Document – Audit Program

Activity Code 10100	Post Year End Incurred Cost Audit - Large
Version 9.1, dated Feb2023	
B-01 Planning Considerations	
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 (WP 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 or 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>	

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Purpose and Scope

This standard audit program assists the auditor in planning and performing the incurred cost audit of a large contractor to determine if costs charged to auditable Government contracts are allowable, allocable, and reasonable in accordance with contract terms, applicable generally accepted accounting principles, cost accounting standards, and applicable Government acquisition regulations. Generally, a large contractor has sampling ADV of \$100 million or greater. This program is intended to be the controlling assignment for the entire incurred cost audit of a contractor fiscal year. It is expected that those portions of the audit which are covered in other work packages will be referenced at the appropriate place in this master assignment, including budgeted and actual hours (applicable to the larger contractor). Audit programs in other work packages (10160) should be cross-referenced back to the control assignment and audit step.

It is not expected that the audit steps be completed in the order in which they appear in the audit program. Additionally, these steps are intended as general guidance only, and audit team should expand or eliminate steps as necessary to fit the current audit and best support their assessment of materiality, risk, and milestone planning. The audit program should reflect a mutual understanding amongst the audit team as to the scope required to meet auditing standards and DCAA objectives for the current assignment.

If the contractor has CAS-covered contracts, the auditor should test contractor compliance with the applicable CAS requirements as part of their transaction testing steps. The auditor should determine by checking the permanent files and prior audit working papers if significant costs related to CAS have been identified. Contractor compliance with certain CAS 412 and 413 provisions related to defined benefit pension plans must be tested annually, even if there are no pension costs incurred.

This master program does not provide detailed audit steps for the testing of individual transactions. It is expected that transaction test programs will be developed locally to facilitate an effective audit based on the audit risk at the specific contractor location. Therefore, the program steps should be tailored, as appropriate. For audit areas with multiple sections, the auditor is permitted to remove the sections that are not relevant to the review based on the documented materiality and risk assessment. The audit program should reflect an understanding between the auditors and supervision as to the scope required.

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Planning Considerations
<p>Upon receipt, the contractor's incurred cost submission should have been evaluated for adequacy using the "Checklist for Determining Adequacy of Contractor Incurred Cost Proposal" (located in Other Audit Guidance (OAG) under code 10100). The risk-based sampling eligibility determination tool may have been prepared, if applicable. The supervisor may authorize initiation of the preliminary audit steps prior to constructive receipt of all required data. Transaction testing ordinarily should not proceed until all required data have been made available. Follow guidance at CAM 6-706.2, Performance of MAARs Without a Certified Proposal, when starting audit procedures without an adequate proposal. Prior to commencing the audit, review Agency guidance that may impact the audit and adjust audit scope and procedures appropriately.</p> <p>Please Note: Reconciliation steps from C-01 may be approved by the supervisor, as documented in A-01 Initial Supervisory Guidance, for performance concurrent with B-01.</p>
NOTE TO AUDIT TEAM
<ul style="list-style-type: none">• <i>The working paper templates referenced in this audit program are available to aid in the performance of the related audit step. Templates are offered as a tool to facilitate the documentation of the applicable procedures performed. The working paper templates are not intended to replace auditor judgment or critical thinking.</i>• <i>Use of these templates to document the work completed is not mandatory. The audit team can create its own working papers or they can tailor the templates as needed. Whether the team chooses to use the referenced working papers or create their own, proper documentation requires that auditors clearly document the procedures performed and the conclusions reached based on those procedures.</i>
References
<ul style="list-style-type: none">• FAR 42.7, DFARS 242.7• FAR 31.2, DFARS 231.2• CAM 1-504, Access to Contractor Records• CAM 3-3S1 Special Considerations Audits of Selected Contract Types• CAM 4-400, Audit working Papers• CAM Chapter 6, Incurred Costs Audit Procedures• CAM 10-200 Audit Reports Format and Contents - General• Selected Areas of Cost Guidebook

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B-01 Preliminary Steps	WP Reference
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INITIAL PLANNING	
<p>1. Final Indirect Cost Proposal</p> <ol style="list-style-type: none"> a. Review the "Checklist for Determining Adequacy of Contractor Incurred Cost Proposal" completed during the adequacy review of the incurred cost proposal and note any areas requiring further consideration. b. MAAR 19: Indirect Rate Computations. Verify the mathematical accuracy of the contractor's rate computations. c. Review the completed risk-based sampling eligibility determination tool, if applicable. 	
<p>2. Identify and contact the contracting officer to notify them of the commencement of audit.</p> <ol style="list-style-type: none"> a. Discuss any significant concerns or other information that the contracting officer may have relevant to the audit (e.g., risk related to the contractor's financial condition, statute of limitation dates, significant prior findings, risk-based sampling eligibility determination, contracts that are in overrun position for potential mischarging, etc.) that will impact the audit and adjust the audit scope and procedures accordingly. b. Request the identification of any closed contracts or settled terminations. 	
<p>3. MAAR 3: Review of Permanent Files</p> <p>Using the framework of WP B-04, review contractor permanent files to determine if there are areas of risk or potential material misstatement that should be considered when designing audit procedures as follows:</p> <ol style="list-style-type: none"> a. Review permanent files for policies and procedures and audit leads relevant to the subject matter under audit and require further audit review. 	
<ol style="list-style-type: none"> b. Review prior audits to determine if there were findings and recommendations that impact the subject matter under audit and require further audit review. 	
<ol style="list-style-type: none"> c. Review CAS Disclosure Statement, Board of Directors' minutes, audit committee minutes, listing of facilities, etc. to identify the following: <ul style="list-style-type: none"> • inconsistent treatment of similar costs and changes in organizational structure requiring follow-up or consideration in the establishment of the audit scope, and • internal contractor audits or other studies that would assist in understanding and evaluating the internal controls relevant to the subject matter under audit. 	
<ol style="list-style-type: none"> d. If relevant other studies were identified, review the results to determine if there are areas of risk requiring further review. 	

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B-01 Preliminary Steps	WP Reference
<p>e. MAAR 6 and 13. If performed for the year under audit, document the sufficiency of the procedures performed and the impact of real-time MAARs on audit scope.</p>	
<p>f. For contractors with defined benefit pension plans, review the Report on Contractor Pension and Post Retirement Benefit (PRB) Plans and other information required in DCAA Instruction 7600.3, Contractor Pension and PRB Reporting, to identify significant events that may require a review of Contractor Insurance and Pension Review (CIPR) based on the risk assessment.</p>	
<p>4. Initial Contractor Meeting</p> <p>Conduct a meeting with the contractor and document using the framework of WP B-05. Determine if areas of risk exist and their impact to the audit scope. Cover the following areas:</p> <p>a. the incurred cost proposal (ICP) and related contractor processes</p> <p>b. Conduct management inquiries on:</p> <ul style="list-style-type: none"> • fraud, • legal proceedings, • use of specialist (internal or external) in the preparation of the subject matter, • corrective actions on prior DCAA audit findings relevant to the subject matter of the audit, • other studies or audits, and • internal audits and management reviews. 	

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SCOPE OF AUDIT AND MATERIALITY	
<p>5. Non-auditable Effort</p> <p>Identify non-auditable effort and use the framework of WP B-06 to exclude those dollars from the audit scope, dollars examined, and total subject matter of audit. Using Schedule H, request the contracting officer or contractor to identify or verify the costs associated to the following non-auditable effort:</p> <ol style="list-style-type: none"> a. Closed contracts b. Terminated cost reimbursable contracts c. Subcontract or inter-organizational effort (the effort is performed as lower-tier contractor and the prime auditor does NOT need an audit) d. Classified effort. Coordinate with the Field Detachment (FD) auditor if the proposal includes classified work. If applicable, exclude direct costs of classified contracts related to FD from the audit scope. If the cognizant FD office is unknown, email DCAA-FDRST@dcaa.mil. e. Corporate, Home Office or Shared Service Cost Allocations for which assist audits were requested. f. Non-DoD Contracts (Schedule H and K) for which the non-DoD customers do NOT require an audit of those costs. 	
<p>6. Dollars Examined and Total Subject Matter of Audit</p> <p>Calculate dollars examined and the total subject matter of audit (CAM 6-107.2b) using the framework of WP B-06. Ensure costs identified in step 5 are not included in the calculation.</p>	
<p>7. Government Participation</p> <ol style="list-style-type: none"> a. Use the framework of WP B-07 to review the contractor’s calculation and determine Government flexibly priced contract percentages (Government participation) of the indirect expense base(s). b. Adjust the government participation for materiality taking into consideration the contract costs identified in step 5. 	
<p>8. Materiality Assessment</p> <p>Using the framework of WP B-07, perform the following procedures to assess materiality:</p> <ol style="list-style-type: none"> a. Calculate quantified materiality using the materiality formula (CAM 6-107.2(a)) and the total subject matter of audit calculated in Step 6. 	
<ol style="list-style-type: none"> b. Identify for further audit procedures to support the audit opinion: <ul style="list-style-type: none"> • direct and indirect cost elements exceeding quantified materiality threshold; and • cost elements with values less than the materiality threshold that are significant based on risk factors, qualitative characteristics, variability, and/or other stated concerns of the contracting officer. 	

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<p>c. Calculate adjusted materiality for significant <i>direct</i> cost elements (CAM 6-107.1(c)) and identify for further audit procedures:</p> <ul style="list-style-type: none"> • accounts that exceed the adjusted materiality amount; and • accounts with values less than the threshold that are significant based on risk factors, qualitative characteristics, variability, and/or other stated concerns of the contracting officer. 	
<p>d. Calculate adjusted materiality for significant <i>indirect</i> cost elements (CAM 6-107.1(c)) and identify for further audit procedures:</p> <ul style="list-style-type: none"> • accounts that exceed the adjusted materiality amount; and • accounts with values less than the threshold that are significant account based on risk factors, qualitative characteristics, variability, and/or other stated concerns of the contracting officer. 	
AUDIT CRITERIA AND PLANNING MEETING	
<p>9. Significant Contract Terms or Provisions</p> <p>Using the framework of WP B-08, determine if contract briefs contain significant contract terms or provisions that impact the audit scope and design appropriate additional audit procedures.</p>	
<p>a. Determine the reliability of the contractor prepared briefs.</p> <ul style="list-style-type: none"> • If the reliability of the contractor prepared briefs has been determined, document and reference the procedures performed and the conclusions reached to establish reliance. • If the reliability of the contractor prepared briefs has not been determined, gain an understanding of the contractor’s briefing process and test a sample of the prepared briefs for significant contracts to original contract documents or Electronic Document Access (EDA) for accuracy. 	
<p>b. If there are no contract briefs or the contractor does not brief contracts adequately, the auditor should brief any contracts deemed significant as part of this audit.</p>	
<p>c. Review contract briefs for any special/significant contract terms or provisions that impact the reimbursement or allowability of costs incurred and consider appropriate procedures, and the data needed, to perform tests of contractor compliance related to significant/key terms that are stipulated among the contracts within the audit scope.</p>	
<p>d. For contracts ready to close, plan testing to identify any amounts incurred outside the period of performance. Verify that the total amount claimed does not exceed the lesser of the total allowable costs and fee or the funding limitation per the contract brief or per the contract and latest modification.</p>	

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<p>10. Planning Meeting</p> <p>Hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss the risk of material noncompliance due to fraud and the results of the procedures performed in steps 3 through 9. Assess their impact to the audit scope and use the framework of WP B-09 to document the discussion.</p>	
<p>11. Comparative Analysis</p> <p>Perform a comparative analysis of indirect costs using the framework of WP B-10 to analyze the following:</p> <p>a. MAAR 15: Indirect Cost Comparison with Prior Years and Budgets.</p> <ul style="list-style-type: none"> • Total Pools, Bases, and Rates. Compare total pools, bases, and rates (Schedule A) to prior years and budgetary amounts to identify indirect pools exceeding the materiality threshold, as well as new and sensitive pools. Determine if the indirect rate structure to accumulate and allocate costs is consistent with the contractor’s written policies/procedures, CAS disclosure statement (if applicable), and indirect rate structure used to prepare forward pricing and/or provisional billing indirect rates for the same year (CAS 401/FAR 31.203). 	
<ul style="list-style-type: none"> • Indirect Accounts. Review contractor's comparative analysis OR perform comparative analysis identifying new, material and sensitive accounts, and accounts with significant variances. Obtain GL data for new/material/sensitive/variable indirect accounts and analyze those accounts to identify specific risks of material misstatement. Tailor the detailed audit steps to address any risks identified. 	
<p>b. MAAR 8: Perform comparative analysis of sensitive direct and indirect labor accounts.</p>	
<p>c. MAAR 7: Changes in Charging Direct/Indirect Costs. Compare current year direct costs by contract type and direct vs. indirect costs to identify changes in the contractor's practices for charging direct and indirect costs. If significant changes are identified, review the contractor's policies and procedures/actual practices to ensure that the contractor's practices for charging direct vs. indirect costs are consistent with GAAP, CAS and applicable contract provisions.</p>	
<p>12. Analysis of Subcontract (Schedule J) and Inter-Organizational Transfer (IOT) Costs Analyze subcontract and IOT effort following the framework of WP B-11 and perform the following procedures:</p> <p>a. Identify the auditable universe of subcontract costs from Schedule J and identify material subcontract types (fixed price, T&M, cost-type) within that universe.</p>	
<p>b. Identify significant subcontractors for each subcontract type.</p>	
<p>c. MAAR 12: If material flexibly-priced subcontracts are identified, assess the need for assist audits in coordination with the cognizant auditors of the lower-tier subcontractors.</p>	

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<p>d. Determine whether any subcontracts within the audit universe exceed 70% of total prime contract costs and there is a risk of excessive pass-through costs.</p> <p>If any, design the procedures in section F to ensure the submission does not include unallowable excessive pass-through charges in accordance with FAR 31.203(i).</p>	
<p>13. Profit Margin Test</p> <p>If there are T&M/Labor Hour contracts in the audit scope, perform a profit margin test on those contracts using the framework in WP B-12. Follow-up on any contracts that appear to have significant profit margin and consider the need for additional testing.</p>	
<p>14. Schedule I Billing Variances</p> <p>Scan Schedule I for material over / under billings at both the total and individual contract level. If material variances are identified:</p> <ul style="list-style-type: none"> a. Determine the cause (timing issues, over/understated billing rates, etc.); b. Adjust the cost element risk and scope of testing, if necessary; and c. Discuss with the supervisor the need to set up an audit to examine the contractor’s compliance with DFARS 252.242-7006(c)(15)(i) and (16). <p><i>Note: Variances between provisional and actual rates should cause variances on all contracts to go same direction (positive or negative). If there are both significant over and under billings, this is an indicator that another factor may be contributing to the variances.</i></p>	
<p>15. MAAR 4: Tax Returns and Financial Statements</p> <p>If the contractor is a corporation that prepares consolidated financial statements, these steps are usually largely performed by the corporate auditors. Auditors of contractor segments should coordinate with the corporate auditors to (1) pursue audit leads identified by the corporate auditors and (2) assess additional audit effort necessary at the segment level. All auditors should review the notes to the financial statements for possible audit leads requiring follow-up (CAM 3-204.17c) as follows:</p> <ul style="list-style-type: none"> a. Review corporate financial statements, tax returns and SEC filings as appropriate. Follow-up on any significant audit issues (e.g., credits, organizational changes, litigation issues, related party transactions, etc.). 	
<ul style="list-style-type: none"> b. Review Federal Income Tax Returns for compliance with FAR 31.205-41 to identify duplicate recovery of foreign income tax expenditures--- first as a contract cost and second as a reduction to its federal income tax liability (Selected Areas of Cost Guidebook; Chapter 68-7). 	
<p>INTERNAL CONTROLS</p> <p><i>Note: This section is applicable to the controls, processes, and procedures in place for the year in which the costs were incurred.</i></p>	

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<p>16. Obtain and document an understanding of contractor internal controls relevant to the audit. Auditors may obtain a significant portion of this understanding during the walkthrough.</p>	
<p>17. Scanning Controls If scanned images represent a significant amount of the contractor’s source and supporting documentation, determine the reliance of scanned documents for the contractor’s fiscal year being audited. If not performed in another assignment, request the contractor to provide a demonstration/walkthrough to obtain an understanding of the system and control activities over the functional elements that make up the source document imaging process. If necessary, include audit procedures to test a sample of images to original documentation as part of audit scope.</p>	
<p>18. Risk of Non-Payment of Contract Costs For contract costs to be reimbursable, they have to be paid in compliance with FAR 52.216-7(b)(1). Using the framework of WP B-15, determine the risk that the contractor is delinquent in paying costs incurred for contract performance. Perform the following procedures to make the determination: a. Obtain an understanding of the contractor’s policies and procedures. b. Review prior testing. c. Identify risk of delinquent payment. d. Design audit procedures as applicable.</p>	
RISK ASSESSMENT SUMMARY AND DISCUSSION	
<p>19. Assess and document the need for technical or other audit assistance.</p>	
<p>20. Scope of Audit Discussion Review and discuss with the supervisor (and other audit team members as appropriate) the overall results of the risk assessment procedures performed. Use the framework provided in WP B-16 to guide the discussion of the following: a. Develop a milestone plan. b. Discuss the audit scope for each audit area documented in WP B and -1 WPs and the substantive procedures designed. c. Make any further adjustments to the audit program steps necessary to obtain sufficient, appropriate audit evidence to provide a reasonable basis for the opinion that will be expressed in the audit report. d. Document supervisory approval of the materiality, risk assessment, and milestone plan.</p>	

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<p>21. Entrance Conference</p> <p>Conduct an entrance conference and document using the framework of WP B-17. Include a sign-in sheet with all attendees at the meeting and discuss the following:</p> <ul style="list-style-type: none">a. availability of required data and personnel necessary to support the audit, andb. the timing and scope of the audit assignment (including report issuance).	
<p>22. Electronically transmit an acknowledgement/notification letter to the appropriate Contracting Officer and the Contractor to formally notify them of the audit and expected completion date in accordance with CAM 4-104. The acknowledgement/notification letter should be issued within the timeframe and in accordance with the procedures in CAM 4-104 and CAM 4-302.3.</p> <p><i>Note: For adequate submissions received on or after December 12, 2017, the audit should be completed within 1 year of receipt.</i></p>	
<p>23. Summarize in WP B the results and accounts/cost amounts that will be subject to further audit procedures to support the audit opinion.</p>	

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C-1 Reconciliations	WP Reference
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<p>1. MAAR 2: Contract Cost Analysis and Reconciliation to Books. Verify the contractor’s reconciliation of costs by major cost element under auditable Government contracts to the contractor’s job cost subsidiary ledger and other accounting system records. Reconcile significant direct cost elements to job cost ledger on significant contracts. Coordinate with Field Detachment, as needed, to address classified contracts. Follow-up and obtain explanations on significant differences.</p>	
<p>2. MAAR 14: Pools/Bases Reconciliation to books. Verify the pools and allocation bases to accounting records to determine that the amounts reconcile to the contractor’s general ledger. Reconcile significant indirect cost accounts and significant base amounts to the general ledger. Follow-up on significant differences. Coordinate with Field Detachment, as applicable, to ensure all classified contracts are included in the base.</p>	
<p>3. MAAR 9: Payroll/Labor Distribution Reconciliation.</p> <p>a. Reconcile Schedule L total payroll dollars with totals of related labor cost in the general ledger and labor distribution records.</p>	
<p>b. Reconcile Schedule L total payroll dollars and payroll taxes to the IRS Form 941. (Reconciliation of total payroll dollars to payroll taxes to the IRS Form 941 may assist in validating there were no fictitious employees).</p>	
<p>c. If the Cognizant Federal Agency Official (CFAO) granted the contractor a waiver for submitting Schedule L as part of its annual indirect cost rate proposal, obtain a copy of the waiver. Confirm an alternate Schedule L was submitted and document the working papers. Ensure the alternate schedule reconciles labor costs in the submission to the general ledger, labor distribution and payroll records.</p>	
<p>d. If segments report to a Home Office/Division, the MAAR 9 should be performed by the DCAA office with audit cognizance at Home office or Divisional level and that office should provide results to the impacted segments. Follow up with contractor on significant differences.</p>	
<p>4. Inter-Organizational Transfers (IOTs). Selectively reconcile the prime / upper-tier contractor's schedule of IOTs under flexibly priced prime Government contracts / upper-tier IOTS to the lower-tier contractor’s books and records (assistance from the lower-tier auditor may be needed). If not already provided, obtain a listing of the IOTs showing the incurred costs by performing division.</p>	

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C-1 Reconciliations	WP Reference
5. Reconcile voluntary deleted items identified in the incurred cost proposal to the books and records and ensure all voluntary deleted account balances are identified and accounted for as unreimbursable, including directly associated unallowable costs in accordance with FAR 31.201-6. Identify potential directly associated unallowable costs that may not have been removed from the proposal for consideration in planning transaction testing.	
6. Summarize the results and note whether any areas require further analysis during transaction testing.	

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D-1 Direct and Indirect Labor	WP Reference
Version 9.1, dated Feb 2023	
<p>1. MAAR 6: Contractor Labor Audit (CAM 6-404). If applicable, review and incorporate the results of the MAAR 6 (labor floor check and interview) audit. Based on the results of the preliminary steps that identified materiality and risk, perform additional labor testing procedures, as required, to evaluate the allowability, allocability, and reasonableness of incurred labor costs. <i>Coordinate with Field Detachment as necessary to address direct labor costs on classified contracts.</i> Determine if testing to payment is necessary.</p>	
<p>2. MAAR 8. Comparative Analysis-Sensitive Labor Accounts. Evaluate any significant changes resulting from comparative analysis of sensitive labor accounts for possible misclassification.</p>	
<p>3. MAAR 9: Payroll/Labor Distribution Testing (CAM 6-406). Test quarterly taxes to evidence of payment (e.g., contractor bank statements, electronic funds transfer, or third party payroll processor records). Verify total taxes owed were paid.</p>	
<p>4. MAAR 10: Adjusting Entries and Exception Reports (CAM 6-404.6b (6)). Evaluate adjusting journal entries and exception reports for direct and indirect labor. Identify adjustments (e.g., unusual labor transfers) requiring further examination and explanation. Based on risk, test direct and indirect labor adjusting entries. Be alert to situations where labor costs are being transferred without supporting timecards and/or documentation. Obtain and analyze explanations for any abnormal adjusting entries or corrections.</p>	
<p>5. For T&M or Labor Hour contracts, based on the preliminary steps that identified materiality and risk, select a sample of contracts for testing of details:</p> <p>a. Determine if the proposed incurred and billed hours reconcile to the contractor’s books and record (e.g., timesheets, labor distributions reports, and job cost summary reports).</p>	
<p>b. Review and determine whether labor hours and rates comply with contract provisions.</p>	
<p>c. Based on the results of the materiality and risk assessment, test employee qualifications (education and experience) comply with contract provisions (FAR 52.232-7(a)(3)).</p>	
<p>6. Executive Compensation:</p> <p>a. Trace the executive compensation costs to the appropriate G&A and overhead accounts to ensure that all the executive compensation is being evaluated for reasonableness.</p>	

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D-1 Direct and Indirect Labor	WP Reference
<p>b. Perform sufficient steps to verify that all allocable direct and indirect executive compensation in excess of the statutory compensation ceilings (See CAM 6-414) has either been appropriately: (i) excluded from the contractor’s incurred cost submission, or (ii) identified as expressly unallowable costs and questioned in the audit report.</p>	
<p>7. Reasonableness of Non-Executive Compensation (including bonuses and awards): If indicated by the materiality and risk assessment, test the reasonableness of non- executive compensation. Review the contractor’s evaluation of external equity for compliance with policies, procedures and FAR 31.205-6. Consider coordinating with the Agency Compensation Team for guidance and assistance. See CAM 6-413.</p>	
<p>8. Verify that any questioned labor related costs also considers directly associated costs that should also be excluded/questioned. (FAR 31.201-6(a))</p>	
<p>9. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	
<p>10. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.</p> <p><i>[Note: If the contractor does not agree with the questioned cost(s) draft a DCAA Form 1 in accordance with CAM 6-900.]</i></p>	

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E-1 Direct Material	WP Reference
Version 9.1, dated Feb 2023	
1. MAAR 10: Adjusting Entries and Exception Reports (CAM 6-305.3a (1)). Request the contractor to provide adjusting journal entries and exception reports for direct materials. Evaluate and identify adjustments requiring further analysis and explanation (e.g., transfers between direct/indirect, FFP to Cost Type contracts, or unallowable/unbillable amounts to allowable amounts).	
2. MAAR 13: Purchases Existence and Consumption (CAM 6-305.3a (2)). If applicable, review and incorporate the results of MAAR 13. Based on the results of the preliminary steps that identified materiality and the risk, perform additional material testing procedures, as required, to examine on the incurred material cost. <i>Coordinate with Field Detachment as necessary to address material costs on classified contracts.</i> During testing, determine materials purchased were required for the contract, purchased in reasonable quantity and at a reasonable price, used on the contract, in compliance with contract terms and CAS if applicable (i.e., CAS 402 and 411), and were properly accounted for. Determine if testing to payment is necessary.	
3. Verify that any questioned direct material costs also considers directly associated costs that should also be excluded/questioned (FAR 31.201-6(a)).	
4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
5. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation. <i>[Note: If the contractor does not agree with the questioned cost(s) draft a DCAA Form 1 in accordance with CAM 6-900.]</i>	

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F-1 Subcontracts - Large	WP Reference
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<i>This section is applicable to all lower-tier subcontract costs included in the prime / upper-tier contractor's ICP including those in which assist audits (MAAR 12) were requested and fixed priced subcontracts under flexibly priced prime contracts.</i>	
<p>1. MAAR 10: Adjusting Entries and Exception Reports.</p> <ul style="list-style-type: none"> • Evaluate adjusting journal entries and exception reports for subcontract costs. • Identify adjustments requiring further analysis and explanation. 	
<p>2. Based on the results of the preliminary steps that identified materiality and the risk, perform the following to assess allowability (FAR 31.201-2) for selected subcontracts (including fixed priced subcontracts and those flexibly priced subcontracts that assist audits were requested for) issued under flexibly priced prime contracts / upper-tier subcontracts. Coordinate with Field Detachment as necessary to address subcontract costs on classified contracts.</p>	
<p>a. Determine if the subcontract costs are allocable (FAR 31.201-4) to the prime contract (i.e. was effort consistent with (sub)contract requirements, is the subcontract SOW consistent with prime contract, etc.?)</p>	
<p>b. Verify the existence, accuracy and proper recording of the subcontract cost included in the prime/upper tier contractor's ICP. Perform the following as applicable and risk dictates:</p> <ul style="list-style-type: none"> • Trace the prime / upper tier contractor's proposed subcontract cost to billings submitted by the lower tier contractor. • Ensure prices and units on the invoices (i.e., billings) match prices and units specified in the subcontract or purchase order. • Verify goods were received and services were performed. 	
<p>c. If the risk of non-payment was assessed as high (B-01 Step 31), perform testing of payments to ensure subcontract costs were paid.</p>	

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F-1 Subcontracts - Large	WP Reference
<p>d. Determine if subcontract costs are reasonable (FAR 31.201-3) at prime contract level.</p> <p><i>(Note: For some subcontracts, this could have been previously tested in prior incurred costs audits or during the price proposal audit. (Reliance should be placed on prior audits to the maximum extent possible)</i></p> <ul style="list-style-type: none"> • This may involve reviewing the purchasing file for evidence of reasonableness. This may include the basis for subcontract selection, cost/price analysis, adequate competition, make/buy decision, verifying materials/services were needed, etc.). • If the contractor has little or no evidence to support reasonableness, consider alternate procedures that can be performed to test for reasonableness. <p><i>(Note: Costs should not be questioned if reasonableness cannot be established. If significant, a reservation on the engagement should be reported as well as the non-compliance with FAR 31.201-2(d).</i></p> <ul style="list-style-type: none"> • If the costs are deemed unreasonable, design procedures to develop an audit position on the unreasonable portion and question accordingly. 	
<p>e. Ensure the lower-tier subcontractor billings submitted to the prime / upper-tier contractor are in compliance with contractual terms (requires briefing both the prime / upper-tier contract and subcontract). Including the following:</p> <ul style="list-style-type: none"> • Compliance with any special provisions, limitations, etc. This includes ensuring subcontract terms and costs do not violate prime contract terms. • Cost type subcontracts – Verify billings indicate that subcontracts costs are billed at cost incurred plus fee (if applicable), and within contract ceiling amounts. Also, verify provisional billing rates are updated to reflect final year-end rates. • T&M/LH subcontracts – Ensure subcontract labor rates and hours billed to the prime are consistent with the terms of the subcontract and in compliance with applicable versions of the FAR 52.232-7 payment clause. <p><i>Note: For subcontracts in which assist audits were requested, ensure proper coordination with lower-tier auditor to avoid any duplication of effort.</i></p>	

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F-1 Subcontracts - Large	WP Reference
<p>3. MAAR 12. If assist audits were received, address any significant questioned costs in the assist audit report that pertain to your contracts with the prime or upper-tier contractor. Obtain the prime or upper-tier contractor's position on the questioned costs. Incorporate the questioned costs after considering prime / upper-tier contractor's position. Follow-up on requested assist audits that have not been received.</p>	
OTHER PROCEDURES THAT MAY NEED TO BE PERFORMED	
<p>4. Excessive Pass through Charges (FAR 52.215-23, previously DFARS 252.215-7004, the DFARS clause became effective for all contracts awarded after 4/26/2007 and the FAR clause became effective 10/14/2009). Contractors are required to identify the percentage of work that will be subcontracted. When the percentage of total subcontract effort is greater than 70 percent of the total work to be performed (at total contract level), the contractor must provide information supporting the value it adds with regard to the subcontracted work. Using the information obtained in B, ensure the submission does not include unallowable excessive pass-through charges in accordance with FAR 52.215-22 and FAR 52.215-23.</p> <p>a. If the contract contains FAR 52.215-23 Alternate I, the contracting officer made a determination at the time of award that the prospective contractor has demonstrated that its functions provide added value to the contracting effort and there are no excessive pass-through charges. Auditors should:</p> <ol style="list-style-type: none"> (1) Compare the contractor demonstrated value added functions with those disclosed to the contracting officer at the time of award to ensure the functions billed or incurred are consistent with the contracting officer's determination; and (2) Ensure the disclosed value-added functions were performed and are reasonable. 	
<p>b. If the contract does not contain FAR Alternate I, the auditor perform procedures to determine if the contractor incurred excessive pass through charges as defined in FAR 52.215-23.</p>	
<ol style="list-style-type: none"> (1) Request the contractor to identify the value added functions it provided consistent with the definition in the contract clause. 	
<ol style="list-style-type: none"> (2) Verify the disclosed functions were performed, are reasonable and represent value added effort. 	
<ol style="list-style-type: none"> (3) FAR 52.215-23(c) requires the contractor to notify the Contracting Officer if there are changes in subcontract effort after award that results in it exceeding 70% of total contract value. The auditor should request the contractor to provide evidence of written notification to the contracting officer that more than 70 percent of 	

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<p>the total costs of the work to be performed by subcontractors. If the contractor did not comply with this requirement, the auditor should notify the CO and consider if a DFARS system deficiency exists.</p>	
<p>c. If the functions were not performed or add no or negligible value to the contract, then the indirect costs added by the prime contractor to the subcontracted work should be questioned as excessive pass through charges in accordance with FAR 31.203(i).</p>	
SUMMARIZE RESULTS	
<p>5. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	
<p>6. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.</p> <p><i>[Note: Questioned cost for subcontract effort that is not concurred should be resolved at the prime level (prime contractor and prime’s CFAO) using DCAA Form 1 procedures (CAM 6-900).]</i></p>	

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G-1	Other Direct Costs (ODC)	WP Reference
Version 9.1, dated Feb 2023		
1.	MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for other direct costs. Identify adjustments requiring further analysis and explanation.	
2.	Based on the results of the preliminary steps that identified materiality and risk, perform adequate testing of significant ODC transactions for allowability, allocability, and reasonableness. Coordinate with Field Detachment as necessary to address ODCs on classified contracts. Determine if testing to payment is necessary. For selected transactions, evaluate source documents for completeness and accuracy, and determine the appropriateness of the charge with respect to term of the contract and FAR/CAS. For example, ensure that the contractor is treating costs of like items in the same manner (FAR 31.202, FAR 31.203, and/or CAS 402).	
3.	Verify that any questioned other direct cost also considers directly associated costs that should also be excluded/questioned (FAR 31.2016(a)).	
4.	Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
5.	Summarize the results including the conclusions, basis of proposed cost, and audit evaluation. <i>[Note: If the contractor does not agree with the questioned cost(s) draft a DCAA Form 1 in accordance with CAM 6-900.]</i>	

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H-1	Indirect Expenses and Cost of Money - Large	WP Reference
Version 9.1, dated Feb 2023		
PROCEDURES FOR ALL CONTRACTORS		
1.	<p>MAAR 5: General Ledger, Trial Balance, Income and/or Credit Adjustments (CAM 6-608.2d (5)). Document your understanding of the types of income and credits occurring at this contractor, and your understanding of the contractor's methods for accounting for income and credits. Analyze the contractor's general ledger, trial balance and entries to profit accounts and other income accounts to identify any credits or income that have not been accounted for which the government may be entitled to a credit. Examples include purchase discounts, scrap sales, rental income, excessive company reserves, insurance and state tax rebates and refunds, etc. Identify adjustments requiring follow-up.</p>	
2.	<p>MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for indirect expenses. Identify significant and/or sensitive adjustments requiring further analysis and explanation (e.g., journal entries reclassifying direct to indirect costs).</p>	
3.	<p>MAAR 16: Indirect Account Analysis (CAM 6-608.2c). Based on the results of the preliminary steps that identified materiality and risk, perform transaction testing on accounts to obtain sufficient evidence for allowability, allocability, and reasonableness of these costs. Determine if testing to payment is necessary.</p>	
4.	<p>MAAR 18: Indirect Allocation Bases. Evaluate the contractor's indirect cost allocation base(s) for equity and consistency and generally accepted accounting principles, FAR 31.203(c) and CAS 410 and 418, if applicable. Verify that the base(s) properly: (i) reflect(s) the appropriate cost accounting period; and (ii) allocates indirect cost to final cost objectives commensurate with the benefits received (CAM 6-606 and 6-610.2).</p>	
5.	<p>Determine if the same accounting period is used for accumulating costs in an indirect costs pool as for establishing its allocation base CAS 406/FAR 31.203(g).</p>	
6.	<p>If any terminated cost-reimbursement type contracts containing the allowable cost and payment clause (FAR 52.216-7) were settled by the Termination Contracting Officer (TCO) using non-final indirect rates, verify that the contractor removed all negotiated indirect costs and related direct costs from applicable pools and bases before preparing its incurred cost proposal (FAR 49.303(b)). If the contractor has not removed negotiated indirect costs and related direct costs for this circumstance, exclude the costs from applicable pools and bases.</p>	
7.	<p>Cost of Money. If the submission includes cost of money rates, verify the amounts on the CASB-CMF form, Facilities Capital Cost of Money</p>	

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<p>Factors Computation, to source documents and verify the accuracy of the contractor's calculations.</p> <p>a. Verify compliance with the provisions of CAS 414 and FAR 31.205-10.</p>	
<p>b. Ensure the contractor use the same base used to allocate the other expenses included in the cost pool.</p>	
<p>c. Ensure the contractor used applicable cost of money rate for that FY (CAM 8-414.2).</p>	
<p>8. Indirect Cost Limitation for Basic Research Awards: Review the contractor briefs to ascertain the contractor's "basic research" awards and the applicable FY appropriated funds paid. If the contractor has Basic Research Awards, see CAM 6-612.</p>	
<p>9. If requested assist audit(s) for significant corporate or home office allocations, or shared service cost allocations were received, compare the allowable costs in the assist audit report(s) to the amounts in the prime / upper-tier segments ICP. Determine the impact, if any, on the final rates. Follow-up on requested assist audits that have not been received.</p>	
<p>10. Verify that any questioned indirect costs also consider directly associated costs that should be questioned (FAR 31.201-6(a)).</p>	
<p>OTHER PROCEDURES THAT MAY NEED TO BE PERFORMED</p>	
<p>11. Pension Costs. Evaluate Pension costs for significance (i.e. materiality and/or risk). Pension costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Therefore, divisional auditors may need to request an assist audit from the FAO cognizant of the corporate home office.</p>	
<p>a. If the costs are auditable at your location and significant, (i.e. material and/or risk factors have been identified) develop an audit program considering the FAR and CAS requirements (e.g., relevant audit steps may be considered from the CAS compliance audit programs). Identify any terminated pension plan costs or credits on the books for this contractor or for acquired or absorbed divisions or other division employees for further review.</p>	
<p>b. If the costs are significant (i.e. material and or risk factors have been identified), test contractor contributions under employee pension plans to evidence of payment (i.e., contractor bank statements, electronic funds transfer, or third party payroll processor records).</p>	
<p>12. If no pension costs are incurred for the year, the following steps are mandatory for defined benefit pension plans:</p>	

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<p>a. Evaluate the Trustee report and obtain an explanation for any significant withdrawals of pension assets. Perform additional audit steps as needed to ensure that Government contributed pension assets are protected.</p>	
<p>b. If the contractor’s practice is to calculate pension costs by segment:</p>	
<p>(1) Verify that the records required by CAS 413.50(c)(7) are properly maintained and that investment earnings of the trust are allocated in accordance with CAS 413.50(c)(7).</p>	
<p>(2) Determine if the transfer of active employees among segments distorts the ratio of assets to the actuarial accrued liabilities.</p>	
<p>(3) If so, verify that assets equal to the employees’ actuarial accrued liabilities (determined using the accrued benefit cost method) were transferred in accordance with CAS 413.50(c)(8). Consider requesting the assistance of the DCMA pension specialist through the ACO</p>	
<p>13. Health Care Costs. As part of the review of health care costs, verify the contractor included only health insurance premiums and claims for “eligible dependents”. Request the contractor to demonstrate its procedures for ensuring only costs related to eligible dependents have been included in the proposed allowable costs. Based on the understanding of the contractor’s processes and overall risk, design procedures to test proposed allowable costs are related to only eligible dependents.</p>	
<p>14. IR&D/B&P. If the contractor is identified as a major contractor in the preliminary steps (DFARS 231.205-18(a)), verify the IR&D/B&P costs meet the allowability criteria in DFARS 231.205-18(c). Obtain Costs by Element for each IR&D/B&P project. For significant IR&D projects review the project descriptions, work documents, invention reports to determine if they meet the FAR 31.205-18 and CAS 420 definitions Applied Research, Basic Research, or Development.</p>	
<p>SUMMARIZE RESULTS</p>	
<p>15. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	
<p>16. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation. <i>[Note: If the contractor does not agree with the questioned cost(s) draft a DCAA Form 1 in accordance with CAM 6-900.]</i></p>	

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I-1	Inter-Organizational Transfers (IOTs)	WP Reference
Version 9.1, dated Feb 2023		
Based on your understanding of the contractor’s IOT policies / procedures and risks perform the following steps for material and significant/sensitive IOTs. Coordinate with Field Detachment as necessary to address IOTs on classified contracts. <i>(Rely on prior audits to maximum extent possible for steps 2 and 3 such as proposal audits or prior incurred costs, in which specific IOTs may have already been tested).</i>		
1. MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for IOT costs. Identify adjustments requiring further analysis and explanation.		
2. Compliance with FAR 31.205-26(e). Determine if the selected IOTs were transferred and included in the incurred cost proposal based on costs incurred, as required by FAR 31.205-26(e). If the IOT was transferred and included in the incurred cost proposal based on price (cost plus profit), evaluate compliance with FAR 31.205-26(e)(1) and (2), which provides for an allowance based on price when:		
a. It is the established practice of the transferring organization to price inter-organizational transfers at other than cost for commercial work of the contractor or any division, subsidiary, or affiliate of the contractor under a common control; and		
b. The items being transferred qualifies for an exception under FAR 15.403-1(b) (supported by adequate price competition or sales data as applicable) and the contracting officer has not determined the price to be unreasonable.		
c. If requirements of FAR 31.205-26(e) were not met, question the amounts in excess of actual costs.		
3. Perform the following to assess allowability (FAR 31.201-2) of selected IOTs issued under flexibly priced prime contracts:		
a. IOT Agreement. Verify a proper agreement exists between the authorizing and performing organizations.		
b. Verify the scope of the work authorized and billed by the performing segment was needed for the prime / upper-tier contract. (FAR 31.201-4 – Determining Allocability)		
c. Determine if the IOT costs are reasonable (FAR 31.201-3) at the prime /upper-tier contract level. <ul style="list-style-type: none"> • IOTs based on price – Consider testing performed in step 2b above. 		

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<ul style="list-style-type: none"> • Make or Buy Program. Determine if the contractor was required to submit a make or buy program as part of the solicitation relating to the IOT effort and whether the contracting officer reviewed and approved the make or buy program (FAR 15.407-2; 52.215-9). Evaluate the contractor's make/buy decision for reasonableness. IOTs are considered a make a decision if reimbursement is based on cost and a buy decision if based on a competitive price. Be alert for decisions that were in the best interest of the contractor but not the Government. (CAM 9-405.2)) • If the contractor has little or no evidence to support reasonableness, consider alternate procedures that can be performed to test for reasonableness. <i>(Note: Costs should not be questioned if reasonableness cannot be established. If significant, a reservation on the engagement should be reported as well as the non-compliance with FAR 31.201-2(d).</i> • If the costs are deemed unreasonable, design procedures to develop an audit position on the unreasonable portion and question accordingly. 	
<p>d. Based upon how IOT costs are booked/received by the prime segment, design procedures to ensure the proposed / billed IOT costs:</p> <ul style="list-style-type: none"> • Reconcile to performing segments books or billings (if submitted). 	
<ul style="list-style-type: none"> • Are in compliance with contractual terms and IOT agreement (i.e., special limitations, T&M contracts - FAR 52.232-7 payment clause, etc.) <p><i>(Note: Depending upon the contractor's specific practices, this may not be feasible without an assist.)</i></p>	
<p>4. MAAR 12. Incorporate any questioned costs from assist audits received on performing segments and follow-up on any outstanding assist audits.</p>	
<p>5. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	
<p>6. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.</p> <p><i>[Note: If the contractor does not agree with the questioned cost(s) draft a DCAA Form 1 in accordance with CAM 6-900.]</i></p>	

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U-1 Agency Compensation Team: Compensation Reasonableness and FAR Cap Allowability	WP Reference
Version 9.1, dated Feb 2023	
UPFRONT COMMUNICATION AND PLANNING	
<p>1. Review the FAO’s request and accompanying data; then discuss the request with the requesting audit team. Verify that all required information is available now or will soon be provided, including:</p> <ul style="list-style-type: none"> • Position descriptions, • Market pricing surveys, • Outside consultant studies, • Compensation policies and procedures, etc. <p>If data is incomplete, make inquiries to determine when the data will be provided. If the data is unavailable, document the explanation and discuss with your supervisor the implications on the planned audit procedures.</p>	
<p>2. Review all FAO prepared materiality and/or risk documentation including inquiries, analytical analyses, etc. Coordinate with the FAO to clarify your understanding of materiality/risk, collaborate with the FAO to fine tune the materiality/risk conclusions, and document the rationale for the positions selected for further evaluation.</p>	
<p>3. Document your understanding of the contractor’s basis for proposed compensation, including justifications for setting compensation higher than market mean (e.g., financial performance, qualitative factors, etc.). Where the contractor used surveys or an outside consultant to establish compensation, document the contractor’s selected compensation levels, and whether the contractor used performance measures to establish compensation levels (quantitative, qualitative, or both).</p>	
EVALUATE COMPENSATION USING FAR LIMITS	
<p>4. Determine applicable FAR 31.205-6(p) Compensation Limitations. If the contractor did not propose a Blended Cap, proceed to b.</p> <p>a. Blended Caps. If the contractor proposed a blended Cap, review the advanced agreement, if available, and coordinate with the FAO to determine whether the rate computation was previously evaluated. Document any prior results and negotiation positions. Discuss with your supervisor and adjust risk and the planned procedures accordingly.</p>	

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U-1 Agency Compensation Team: Compensation Reasonableness and FAR Cap Allowability	WP Reference
<p>b. For each individual selected, identify the applicable Cap, determine whether the proposed amounts comply, and classify costs in excess of the Cap as unallowable per FAR 31.205-6(p), prior to proceeding with the reasonableness testing.</p>	
EVALUATE COMPENSATION REASONABLENESS	
<p>5. Thoroughly read each position description and determine whether it is sufficiently described to match a survey description. If inadequate, obtain other documents describing the position’s duties and functions. If it remains inadequate or altogether absent, document this fact, and discuss with your supervisor whether additional procedures are required to effectively match the position to survey data.</p>	
<p>6. Identify the best fit compensation survey for each selected job/position, finding the best match of the company’s revenue, industry, geographic location (area from which employees are recruited and lost), and participation by companies not performing government contracts. Adjust these factors considering the skill complexity of each tested position (e.g., advanced engineers are often recruited nationally while entry-level engineers are not).</p> <p>Apply professional skepticism before using a contractor provided survey, especially if you determine the contractor did not use the survey for its own market pricing, or if the contractor used a single survey to benchmark all position classifications. Document your rationale if choosing not to use the contractor-provided survey.</p> <p>Select the appropriate survey for each position classification and document your rationale.</p>	
<p>7. If the contractor sets base salary higher than market median, consider the merits of the justification, as well as the contractor’s financial performance, and document your conclusions.</p> <p>Determine the appropriate percentile for market pricing each position at the appropriate level, generally limited to the range between the 25th and 75th percentiles. Document the rationale for your determination.</p>	
<p>8. Determine if the contractor is following its established policy or procedure for issuing bonuses and the award of the bonus takes place.</p>	
<p>9. Update the survey amounts by applying the appropriate escalation factor to the mid-point of the contractor’s Fiscal Year.</p>	
<p>10. Appropriately consolidate the individual survey results.</p>	

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U-1 Agency Compensation Team: Compensation Reasonableness and FAR Cap Allowability	WP Reference
11. Determine if the company’s allowable fringe benefits are below market level. If below market, consider the prevailing circumstances before adding an “offset” equal to the difference between the company’s allowable fringe benefits and the market fringe benefits.	
<p>12. Determine if the contractor is proposing Long Term Incentive (LTI) compensation, or whether the circumstances call for a LTI offset. Ensure any LTI is evaluated for allowability and reasonableness. No offset consideration is necessary if you used a total direct compensation survey benchmark, or if LTI plans or LTI awards are not prevalent under the contractor’s circumstance (typically only prevalent when company sales > \$300 million).</p> <p>If LTI compensation is deemed appropriate, ensure it:</p> <ul style="list-style-type: none"> • Only includes allowable cost components, • Is founded using a reasonable base salary, and • Is consistent with the best-fit survey data. 	
13. For each selection, compare the proposed compensation to the reasonable compensation level and question the difference.	
SUMMARIZE AND COMMUNICATE RESULTS	
14. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
15. For each selection, document the conclusion, basis of proposed cost, and audit evaluation. Provide the FAO the documentation necessary to understand the evaluation, and to meet our professional standards.	
16. Communicate the results with the FAO audit team and discuss the findings with the contractor as appropriate. Address questions and contractor rebuttals as necessary through the FAO. If significant exceptions, offer to attend negotiations.	

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A-1 Concluding Steps	WP Reference
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1. Summarize and document the audit results and identify the requirements of the audit opinion and using professional judgment select the appropriate opinion based on the evidence obtained. Consider quantitative and qualitative materiality for misstatements (e.g. questioned costs) taken individually, and in aggregate, when evaluating the type of opinion.	
2. Obtain supervisory review of the working papers, and draft audit results section of the audit report before discussions with the contractor.	
3. Prepare the draft rate agreement letter, Cumulative Allowable Cost Worksheet (if applicable), and audit report in accordance with Agency guidance and obtain supervisory review. Ensure you include any assist audits received in Section II of the Cumulative Allowable Cost Worksheet.	
4. Auditors should document and communicate with the contracting officers upon the completion of our audit and approval of the supervisor:	
a. Brief the contracting officer on significant questioned and/or unresolved costs or other significant and/or complex findings/issues, and/or	
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.	
5. Conduct an exit conference and provide the audit result to the contractor. The contractor’s reaction should be obtained for inclusion in the final draft audit report.	
6. Calculate the total questioned costs considered to potentially expressly unallowable costs subject to penalty on covered contracts. Coordinate with the contracting officer (or cognizant auditor) to determine the reporting detail necessary for the contracting officer to make a penalty determination (e.g., Explanatory Notes, Explanatory Notes & Exhibit, etc.) At a minimum, the report should identify questioned costs potentially subject to penalty and include supporting rationale (FAR 42.709-2(b)).	

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A-1 Concluding Steps	WP Reference
<p>7. If the contractor does not agree with the questioned cost(s) draft a DCAA Form 1 in accordance with CAM 6-900.</p> <p><i>[Note: Questioned cost for subcontract effort that is not concurred should be resolved at the prime level (prime contractor and prime’s CFAO) using DCAA Form 1 procedures (CAM 6-900). FD Auditors will prepare and send Form 1s applicable to classified contract customers.]</i></p>	
<p>8. Prepare any required audit lead sheets and submit to supervisor for approval. Update permanent files and risk determination for next fiscal year based on findings/audit results. Determine if the DMIS risk classification requires an update.</p>	
<p>9. Prepare and verify accuracy of dollars examined, questioned costs, and sustained questioned costs amounts for DMIS reporting.</p>	
<p>10. If significant instances of CAS noncompliances are found, coordinate and discuss with supervisory auditor and report under activity code 19200 in accordance with Agency guidance.</p>	
<p>11. If we identify a business system deficiency during the incurred cost audit, open an 11090 assignment to determine if the deficiency still exists today, and to fully develop and report material weaknesses/significant internal control deficiencies.</p> <p><i>(Note: The issuance of the incurred cost audit is not dependent on the results of the 11090)</i></p>	