

MASTER AUDIT PROGRAM

Activity Code 24010	Estimating System – Compliance with DFARS 252.215-7002
B-1 Planning Considerations	Version 11.1, dated June 2021

Type of Service - Attestation Examination Engagement

Audit Specific Independence Determination

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

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

Purpose and Scope

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:

- 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;
- Determine if the contractor is compliant with the estimating system criteria prescribed in DFARS 252.215-7002; and
- Report both significant deficiencies and less severe significant deficiencies identified during the audit related to the contractor's compliance with the system criteria in DFARS 252.215-7002.

2. Although, the objective of this audit is to determine the contractor's compliance with the DFARS criteria and to report significant deficiencies in compliance with the DFARS criteria based on the DFARS definition of a significant deficiency, GAGAS requires auditors report all deficiencies in internal control that are material weaknesses or significant deficiencies based on the auditing standards definitions. A significant deficiency in compliance based on the DFARS definition will generally represent a material weakness in internal control as defined in the auditing standards. The term significant deficiency as used throughout the audit program refers to a deficiency meeting the DFARS definition of a significant deficiency.

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3. GAGAS requires auditors to report, based on the work performed, all deficiencies, or combination of deficiencies, in internal control that are significant deficiencies or material weaknesses. Deficiencies in compliance with the DFARS criteria that are less severe than a significant deficiency may still represent a significant deficiency in internal control under the auditing standards, and would need to be reported in accordance with GAGAS. For performing the examination for compliance with the DFARS criteria, auditors are not required to design audit procedures to identify deficiencies that are less severe than a significant deficiency as defined by DFARS. However, if, during the course of work performed in the assignment, the auditor discovers deficiencies that are less severe significant deficiencies, and significant deficiencies in internal control, these should be included in the audit report.
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 and 2 CFR 200.
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 walkthroughs and demonstrations of its system.
6. Timely communication of significant deficiencies in compliance with the DFARS criteria to those charged with governance is essential to correcting internal control deficiencies. After discussion with your supervisor, it may be determined that a system deficiency report should be issued on a real-time basis, prior to completion of the audit. In those cases, a separate assignment should be set up using the System Deficiency Report activity code 11090. Establishment of this assignment should not occur until there is sufficient evidence that a significant deficiency or material weakness exists and the audit team has fully developed the elements of a finding for the deficiency (see CAM Chapter 10). Whether to issue a deficiency report during the course of the audit is a matter of professional judgment, depending on the specific circumstances.
7. Generally, performance of this audit should occur every three years or more often if risk warrants.

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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.

References

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| 1. DFARS 215.407-5-70, Disclosure, Maintenance, and Review Requirements (Estimating Systems) |
| 2. DFARS 252.215-7002, Cost Estimating System Requirements |
| 3. DFARS 215.408, Solicitation provisions and contract clauses |
| 4. CAM 5-100, Obtaining an Understanding of a Contractor's Internal Controls and Assessing Control Risk for Contractor Business Systems |
| 5. CAM 5-500, Audit of Contractor Compliance with DFARS 252.215-7002 Cost Estimating |
| 6. CAM 9-303, Contractor Estimating Methods and Procedures-Cost Estimates |
| 7. CAM 5-505, Business System Reporting |

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B-01 Preliminary Steps	WP References
Version 11.1, dated June 2021	
<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 Agency guidance that may impact the audit and adjust the scope and procedures appropriately.</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</p>	

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B-01 Preliminary Steps	WP References
<p>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><i>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.</i></p> <p><i>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.</i></p>	
<p>(3) 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>(4) Review the current 11070 Accounting System audit report. Briefly summarize the results of that audit and assess the impact on the contractor’s estimates, based on historical costs. If an accounting system audit has not been performed, discuss with the supervisor the need to perform a separate assignment.</p>	
<p>(5) Document the results and impact of any other relevant audits on the subject matter.</p>	
<p>(6) Document, if applicable, any CAS noncompliances that may affect the processes and internal control related to compliance with the DFARS criteria.</p>	

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B-01 Preliminary Steps	WP References
<p>d. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter. If there were findings, document this information in the risk assessment and perform the following procedures:</p> <ol style="list-style-type: none"> (1) 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. (GAGAS 7.13) (2) Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. 	
<p>2. 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. If there are no other studies or audits, document that information in the working papers and perform the procedures below.</p> <ol style="list-style-type: none"> a. 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. 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. • Document the results of the determination in writing. • If assignment is at a major contractor location, coordinate with the CAD 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. 	

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B-01 Preliminary Steps	WP References
<ul style="list-style-type: none"> • The request 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 working 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 the contractor 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.</p>	
3. Coordination with Contracting Officers	
<p>a. Contact the ACO and PCOs involved in major proposals during the past 12 months to discuss their concerns related to the contractor’s estimating system and compliance with the DFARS criteria. Invite the ACO to the contractor system demonstrations. Document the results of this coordination and consider it in planning the audit.</p>	
<p>b. Notify the appropriate contracting officer of the commencement of the audit and that the expected completion date will be provided in the formal acknowledgement once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.</p>	

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B-01 Preliminary Steps	WP References
<p>4. 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 presentation at the entrance conference. Request the following in order to identify the estimating areas needed for contractor demonstrations:</p> <p>Obtain a schedule of price proposals submitted to the government for the 12 month period ending [insert date] This is generally the past 12 months, however, the period may be adjusted 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 whether each element that was partly or entirely estimated using a cost estimating relationship (CER) as well as any based on standards.</p>	
<p>5. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <ul style="list-style-type: none"> a. Their knowledge of any actual, suspected, or alleged fraud or noncompliance with laws and regulations affecting the period of time corresponding to the subject matter under audit. (AT-C 205.32) b. Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject matter. (GAGAS 7.14) c. The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13) <p><i>Note: Specifically document in the working papers; the inquiries and the corresponding responses as well as how the responses affect the performance of the engagement.</i></p>	

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B-01 Preliminary Steps	WP References
<p>6. 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 should include:</p> <ol style="list-style-type: none"> (1) relevant environmental factors and information related to the nature of the entity; (2) procedures to obtain and document an understanding of the system; (3) the objectives of the audit (primarily compliance with DFARS 252.215-7002); (4) coordination needed with other DCAA offices (e.g., CADs or 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, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential material noncompliances, whether due to error or fraud, that could 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 accounting system deficiencies), • relevant aspects of the contractor and its environment, • risk of material noncompliance due to fraud (e.g., the extent of financial incentives, pressures to meet budgetary and contractual commitments, and opportunities to commit and conceal fraud). (Consider the fraud risk factors and scenarios presented in the DoD OIG's webpage: Fraud Detection Resources for Auditors (copy link and paste into web browser)), • other known risk factors identified that could materially affect the subject matter, and • the audit team's understanding of relevant key internal controls. <p>Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect the subject matter, and design audit procedures to respond to the increased risk of material noncompliance.</p> <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of material misstatement and noncompliance due to error or fraud.</p>	

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B-01 Preliminary Steps	WP References
<p>7. In cases where this examination covers estimating systems at multi-segment contractors, follow the guidance in CAM 5-103.2 and 5110e. 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. Coordinate effort as needed with other DCAA offices (e.g., CADs, assist audit offices, FD) as necessary.</p>	
<p>8. Review the universe of price proposals provided by the contractor for the period, verify completeness and accuracy of selected proposed values (e.g., compare to price proposals audited list, verify with ACO/PCO records, etc.).</p>	
<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).</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 proposals that were determined to be inadequate and briefly document the reasons.</p>	
<p>e. Review recent history of proposed direct and indirect rates compared to actual rates.</p>	
<p>9. Entrance Conference and System Demonstrations</p>	
<p>a. Draft the Contractor Notification Letter. The proforma Contractor Notification Letter contains a list of information generally needed to perform the audit and identifies the key areas of the estimating system addressed during system demonstrations.</p>	

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B-01 Preliminary Steps	WP References
<p data-bbox="282 254 1166 428">b. Hold an entrance conference. The purpose of the entrance conference and contractor demonstrations is to obtain and document an understanding of the contractor's estimating system internal controls related to compliance with the DFARS criteria. During the entrance conference:</p> <ol data-bbox="337 449 1174 1213" style="list-style-type: none"><li data-bbox="337 449 1125 520">(1) Provide the Contractor Notification Letter and discuss the information being requested from the contractor;<li data-bbox="337 537 1174 716">(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;<li data-bbox="337 737 1097 808">(3) Obtain a general overview of the estimating system and processes;<li data-bbox="337 827 1133 930">(4) Establish dates for demonstrations on the key processes of those areas identified. The demonstrations should be held early in the process;<li data-bbox="337 949 1166 1052">(5) Follow up with contractor management on corrective actions that address previous DCAA audit findings and recommendations; and<li data-bbox="337 1071 1110 1213">(6) Follow up with contractor management regarding other studies or audits (e.g., internal auditors, consultants, Independent Public Accountants) that impact the subject matter.	

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B-01 Preliminary Steps	WP References
<p>c. System Demonstrations and Documenting an Understanding of the Estimating System. (The entire team should attend the demonstrations, if possible.)</p> <p>During the demonstrations the audit team should make detailed notes on the contractor’s system descriptions, policies, and procedures, etc. to obtain and document their understanding of the system. Ask questions to ensure a sufficient understanding of the system is obtained. When responsible personnel (and processes) differ across significant areas; the demonstrations may occur through a series of separate walkthroughs provided by responsible contractor personnel.</p> <p><i>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, as well as performing other procedures, such as observing the application of specific controls, inspecting documents and reports, and performing walkthroughs of the system (including tracing estimates through the various processing steps) to demonstrate how the contractor ensures compliance with the DFARS 252.215-7002 system criteria.</i></p>	
<p>d. Document risks the audit team identified during the entrance conference or contractor demonstrations.</p>	
<p>10. Finalizing/Summarizing the Understanding of the Estimating System</p> <p>This step completes the first objective of the audit and is critical since the documented understanding serves as the basis for planning the audit and identifying types of potential noncompliances and factors that affect the risk of material noncompliances to enable designing 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 WP 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.). The documented understanding should address each of the 17 DFARS criteria as well as the five internal control components identified below. Note: the Estimating System Audit Information Request (WP 11b) includes Items (2) – (5).</p>	

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B-01 Preliminary Steps	WP References
<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> – Document the control activities and 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. After the detailed summary understanding has 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>11. 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. This should be a detailed discussion 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.</p>	

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B-01 Preliminary Steps	WP References
<p>a. Review relevant sections in the DoD OIG’s webpage: Fraud Detection Resources for Auditors and discuss risk factors identified that indicate potential fraud risk, illegal acts, or 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>b. Consider the need for specialist assistance, if any, and document on working paper B-03.</p>	
<p>12. Initial Risk Assessment. Document the risk factors identified during team discussions and risk assessment procedures. Design audit procedures (i.e., tailor the audit program by adding, deleting, and modifying the audit steps) to achieve the audit objectives and provide reasonable assurance of detecting material noncompliances with applicable laws and regulations.</p> <p><i>Note: Auditors are encouraged to perform simultaneous testing across the audit program sections to maximize efficiency.</i></p>	
<p>13. Select a representative sample of price proposals that either contain the DFARS clause or where the contractor was subject to certified cost or pricing data requirements. Obtain the files supporting the contractor’s estimates for the significant areas identified 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><i>Note: Consider substantive procedures and testing performed in proposal audits to help determine compliance with the DFARS criteria.</i></p>	

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C-01 Monitoring and Management Reviews	WP Reference
Version 11.1, dated June 2021	
<p>1. Perform the following procedures to 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><i>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 and may include many forms such as management reviews, internal audits, or personnel performing similar activities, which may be accomplished through ongoing monitoring activities built into the contractor’s normal recurring activities, separate evaluations, or a combination of the two. Consider all monitoring activities in determining compliance with this DFARS. 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.</i></p>	
<p>a. Determine if the contractor’s policies and procedures require periodic monitoring (e.g., management reviews) of its estimating system and if the timeframes and 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 walkthrough.)</p>	
<p>b. Evaluate management review and other monitoring activities for the time period covered by the audit to determine if the contractor is performing reviews in accordance with the contractor’s established time frames and guidelines.</p>	
<p>c. Evaluate documentation supporting the contractor’s internal reviews of, and accountability for, the acceptability of the estimating system, such as comparisons of projected results to actual results, and an analysis of any differences. Determine if actual management review is consistent with the policy. (DFARS 252.215-7002(d)(4)(xiii))</p>	
<p>d. Discuss findings with the contractor.</p>	
<p>e. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.</p>	

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E-01 Estimating Direct Labor Rates	WP Reference
Version 11.10, dated June 2021	
<p>1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:</p>	
<p>a. Review and evaluate the assignment of 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, experience, and guidance to develop the estimates in accordance with the established procedures. (DFARS 252.215-7002(d)(4)(i, ii & iii))</p>	
<p>b. Review the 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>c. 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>d. Determine if 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>e. 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 proposals that include direct labor rates that were subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine if the policies and practices reasonably ensure that:</p>	
<p>(1) The direct labor rate calculation method and presentation complied with the solicitation and the FAR.</p>	

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E-01 Estimating Direct Labor Rates	WP Reference
(2) 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))	
(3) Appropriate steps were taken to ensure that proposed direct labor rates are reasonable and otherwise compliant with FAR 31.205-6.	
(4) Reasonable steps were taken to ensure direct labor rate categories comply with CAS 418, if applicable.	
2. Discuss findings with the contractor.	
3. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.	

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F-01 Estimating Direct Labor Hours	WP Reference
Version 11.1, dated June 2021	
<p>1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:</p>	
<p>a. Review and evaluate the assignment of 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))</p>	
<p>b. Review the 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))</p>	
<p>c. 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))</p>	
<p>d. Determine if 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))</p>	
<p>e. 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 proposals that include direct labor hours that were subjected to audit, summarize the reported exceptions. For the remaining proposals, determine if the policies and practices provide reasonable assurance that:</p>	
<p>(1) estimating methods and presentations comply with the solicitation and the FAR.</p>	
<p>(2) 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>	

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F-01 Estimating Direct Labor Hours	WP Reference
<p>(3) If relevant historical hours were used, the estimating team takes reasonable steps to ensure historical direct labor hours were reliable (e.g., periodic internal labor audits/floorchecks) and uses 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 nonrecurring activities. (DFARS 252.215-7002(d)(4)(x))</p>	
<p>(4) 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>(5) Sound rationale was used to estimate the proposed labor skill mix.</p>	
<p>2. Discuss findings with the contractor.</p>	
<p>3. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.</p>	

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G-01 Estimating Using Standards	WP Reference
Version 11.1, dated June 2021	
<p>1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:</p>	
<p>a. Review and evaluate the assignment of 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>b. Review the 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>c. 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>d. Determine if 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>	

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G-01 Estimating Using Standards	WP Reference
<p>e. 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 if the policies and practices reasonably ensure that:</p> <p>(1) The frequency and method by which standards are evaluated and updated result in reasonably accurate standards that are responsive to the solicitation and compliant with the FAR. [Refer to CAM B-102 in determining whether to request specialist assistance, and if needed, to formulate the questions to be addressed by the specialist.]</p>	
<p>(2) 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))</p>	
<p>(3) The estimated variances and actual variances are periodically compared and differences appropriately analyzed. (DFARS 252.215-7002(d)(4)(x & xiii))</p>	
<p>(4) The standard inputs are reasonably uniform across government and commercial contracts. If not uniform, design procedures to evaluate if standard inputs predominately used on commercial contracts are artificially low (i.e., standards for labor tasks predominately used for commercial contracts create an inequitable variance that is shared by all contract types).</p>	
<p>(5) The proposed standards match the prevailing published standards.</p>	
<p>2. Discuss findings with the contractor.</p>	
<p>3. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.</p>	

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I-01 Estimating Interdivisional Work Orders (IWO)	WP Reference
Version 11.1, dated June 2021	
<p>1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:</p>	
<p>a. Review and evaluate the assignment of 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))</p>	
<p>b. 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))</p>	
<p>c. 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 proposals where IWOs were subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine if the policies and practices reasonably ensure that:</p>	
<p>(1) 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>(2) If the IWO was not based on 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>(3) 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>	

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I-01 Estimating Interdivisional Work Orders (IWO)	WP Reference
(4) The contractor appropriately demonstrated that the decision to make the item rather than procure the item in the competitive market results in a fair and reasonable price (see FAR 15.407-2).	
2. Discuss findings with the contractor.	
3. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.	

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M-01 Estimating Direct Material	WP Reference
Version 11.1, dated June 2021	
1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:	
<p>a. Review and evaluate the assignment of 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 252.2157002(d)(4)(i, ii & iii))</p>	
<p>b. Review the 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>c. 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>d. Determine if 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>e. 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 252.2157002(d)(4)(xvi & xvii)) For proposals that include direct material was subjected to audit, summarize the reported exceptions resulting from unsound estimating policies and/or practices. For the remaining proposals, determine if the policies and practices reasonably ensure that:</p>	
<p>(1) The estimating method and presentation complied with the solicitation.</p>	

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M-01 Estimating Direct Material	WP Reference
(2) 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))	
(3) The proposal included a consolidated BoM in accordance with Table 15-2 at FAR 15.408.	
(5) 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))	
(5) The estimated direct material is fair and reasonable. Select a sample of significant direct material items and perform the following.	
(a) Evaluate the rationale for make/buy decisions using the criteria at FAR 15.407-2.	
(b) Determine if that the contractor considered existing inventory supplies.	
(c) Determine if that the contractor performed appropriate market research to discover the extent of competition.	
(d) Verify quote solicitations were sent to an appropriate number of viable vendors to ensure adequate price competition. Verify that quote solicitations stated the proper quantity range based on the needs of the solicitation and other contracts requiring the item during the same time period.	
(e) Identify any quote solicitations for which no bid was received and verify that the contractor appropriately followed-up in order to maximize competition.	
(f) Determine if that the contractor properly identified all purchases with the same vendor and attempted to attain best pricing through volume and quantity discounts.	
(g) Verify that the contractor timely identified the need for certified cost or pricing data for purchases exceeding the TINA threshold or not meeting an exemption at FAR 15.403.	
(h) Determine if that the contractor reflected known or reasonably anticipated price reductions in the estimate when the contractor attempted to negotiate a price reduction.	

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M-01 Estimating Direct Material	WP Reference
(i) 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).	
2. Discuss findings with the contractor.	
3. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.	

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N-01 Estimating Indirect Expenses	WP Reference
Version 11.1, dated June 2021	
<p>1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:</p>	
<p>a. Review and evaluate the assignment of 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))</p>	
<p>b. 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))</p>	
<p>c. 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 252.215-7002(d)(4)(ix, x & xi))</p>	
<p>d. Determine if 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))</p>	

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N-01 Estimating Indirect Expenses	WP Reference
<p>e. 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 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 if the policies and practices reasonably ensure that:</p> <p>(1) 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))</p>	
<p>(2) 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)</p>	
<p>(3) Reasonable steps were taken to protect against expense duplication and omission. (DFARS 252.215-7002(d)(4)(viii))</p>	
<p>(a) 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).</p>	
<p>(b) Verify that reasonable steps were taken to ensure that indirect rate calculations matched the current operating budget.</p>	
<p>(c) Inquire about the contractor's method for determining the completeness of the significant allocation bases. Evaluate any supporting documentation based on risk.</p>	
<p>f. If relevant historical expenses were used to develop the budget, determine if the budget team used appropriate analytical methods for arriving at budgeted amounts. Verify that historical non-recurring activities and associated expenses were properly identified and removed. (DFARS 252.215-7002(d)(4)(x))</p>	
<p>g. 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. Review internal monitoring documentation at a point in time prior to price proposal development, and evaluate the rationale and conclusions. Verify that the conclusions were timely reflected in the proposed indirect rates. [This step may be completed in conjunction with Z-01, Step 2] (DFARS 252.215-7002(d)(4)(xiii))</p>	

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N-01 Estimating Indirect Expenses	WP Reference
h. If there was an impending organizational change at the time of proposal development, 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))	
i. Verify that personnel periodically evaluate the appropriateness of the indirect rate compositions (see CAS 410/418, etc.).	
j. Verify that proposed out-year rates are supported by appropriate trend and/or budgetary data (See FAR 15.408.II.C).	
2. Discuss findings with the contractor.	
3. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.	

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O-01 Other Direct Costs (ODC)	WP Reference
Version 11.1, dated June 2021	
1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:	
a. Review and evaluate the assignment of 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))	
b. Review the 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))	
c. 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))	
d. Determine if 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))	
e. 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 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 if the policies and practices reasonably ensure that:	
(1) The estimating method and presentation complied with the solicitation and applicable FAR.	
(2) 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))	
2. Discuss findings with the contractor.	
3. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.	

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P-01 Estimating Using Cost Estimating Relationships (CER) or Parametric Estimating	WP Reference
Version 11.1, dated June 2021	
1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:	
a. Review and evaluate the assignment of 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 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 252.2157002(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 252.2157002(d)(4)(ix & xi))	
d. Determine if 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 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 252.2157002(d)(4)(xvi & xvii)) For 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 if the policies and practices reasonably ensure that:	
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 B-102 in determining whether to request specialist assistance, and if needed, to formulate the questions to be addressed by the specialist.]	

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P-01 Estimating Using Cost Estimating Relationships (CER) or Parametric Estimating	WP Reference
<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 performed. (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 findings with the contractor.</p>	
<p>4. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.</p>	

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S-01 Estimating Subcontract Costs	WP Reference
Version 11.1, dated June 2021	
1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:	
a. Review and evaluate the assignment of 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))	
b. Review the 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))	
c. Determine if 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))	
d. 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 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 if the policies and practices reasonably ensure that:	
(1) 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))	
(2) Reasonable attempts were made to award the subcontract based on adequate price competition.	

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S-01 Estimating Subcontract Costs	WP Reference
<p>(3) The price analysis was clearly documented and conclusions were based on sound rationale. Where 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))</p>	
<p>(4) Cost analysis was clearly documented and conclusions were based on sound rationale. Determine if the evaluation method is structured to promote consistent application of estimating techniques. Verify that the contractor properly evaluated subcontractor proposed profit and that profit was reduced proportionate to any identified questioned costs. (DFARS 252.215-7002(d)(4)(vi))</p>	
<p>(5) 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))</p>	
<p>(6) The estimate reflected any known or reasonably anticipated price reduction due to continued negotiations with the subcontractor.</p>	
<p>2. Discuss findings with the contractor.</p>	
<p>3. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.</p>	

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T-01 Estimating Cost of Money (COM)	WP Reference
Version 11.1, dated June 2021	
1. Based on your understanding of the policies and procedures obtained during the demonstrations, perform the following to determine whether the policies comply with the DFARS criteria and whether the actual practices comply with the policies:	
a. Review and evaluate the assignment of 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))	
b. Review the 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))	
c. 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))	
d. Determine if 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))	
e. 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 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:	
(1) 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))	
(2) 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.	

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T-01 Estimating Cost of Money (COM)	WP Reference
(3) 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))	
(4) 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.	
3. Discuss findings with the contractor.	
4. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.	

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Z-01 Proposal Updates	WP Reference
Version 11.1, dated June 2021	
1. For 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 contractor provided an update to the Contracting Officer prior to concluding negotiations. (DFARS 252.215-7002(d)(4)(xiv))	
2. Discuss findings with the contractor.	
3. Document the audit evaluation and conclusions. Discuss with the audit team and obtain supervisory approval.	

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A-1 Concluding Steps	WP Reference
Version 11.1, dated June 2021	
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 significant deficiencies from those that are less severe significant deficiencies.	
2. Summarize results and draft the audit report. The draft audit report should include all significant deficiencies and less severe significant deficiencies, 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.	
3. Auditors should communicate significant or complex findings with the contracting officers upon the completion of the audit and, when there are no findings, determine if inclusion of detailed explanatory notes in the audit report would serve a useful purpose.	
4. In certain circumstances, such as when the audit procedures identify only deficiencies in compliance with DFARS criteria that are less severe significant deficiencies, assess if the less severe significant deficiency in compliance with the DFARS criteria represents a significant deficiency in internal control required to be reported per GAGAS. In this case, the less severe deficiencies should be included in the audit report in an exhibit titled "DFARS Less Severe Significant Deficiencies". Consider discussing withhold provisions under FAR 32.503-6 with the responsible contracting officer.	
5. Obtain supervisory review of the working papers, and draft audit results section of the audit report before discussions with the contractor.	
6. 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.	
7. Finalize the audit report and incorporate the contractor's reaction and auditor's response.	
8. If unsatisfactory conditions are noted, follow the guidance in CAM 4-800.	
9. Update the permanent file in accordance with CAM 4-405b.	
10. Brief the audit teams performing pricing proposal audits on the results of the estimating system audit and the effect on the pricing proposal audits.	