

MASTER AUDIT PROGRAM

Activity Code 27010	Cost Realism
B-1 Planning Considerations	Version No. 3.0, dated July 2020

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. <i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this 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.)</i>

Purpose and Scope
This standard audit program assists the auditor team in planning and performing the audit of price proposals to evaluate the proposal for its compliance with FAR Part 15 and 31, as well as applicable CAS provisions. The program steps should be tailored, as appropriate. For audit areas with multiple sections (i.e., rates), the auditor is permitted to remove the sections that are not relevant to the review based on the documented risk assessment. The audit program should reflect an understanding between the auditors and supervision as to the scope required. This program provides specific procedures for auditing price proposals submitted by contractors in connection with the award, administration, modification, or re-pricing of Government contracts when the contracting officer requests an audit.

Planning Considerations
1. Determine whether this pricing action has already been awarded. If this is a subcontract proposal, determine whether the prime contract pricing action has been awarded. When the contract instrument is fixed-price with no downward adjustment clause, the Government derives no benefit from either prime or subcontractor audits performed after negotiation of the prime contract. If the auditor becomes aware that a requested pre-award audit pertains to a fixed-price contract already negotiated by a DoD or non-DoD agency, the auditor should advise the requester that an audit is inappropriate unless a recapture clause has been included in the contract. In those instances in which the contracting officer insists on an audit even though the contract has been awarded on a fixed-price basis and does not contain a recapture clause, the effort should be accomplished as a review for potential defective pricing in accordance with 10 USC 2306(a). If contract award has already been made, STOP WORK NOW and confer with the supervisor.

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Planning Considerations
2. If this is a Change Order Proposal, the team must evaluate deletions as well as additions, and the computation of dollars audited should add deletions rather than netting them against additions. In reviewing deletions, it is important to verify the following:
a. All replaced or deleted elements of the schedule have been identified and priced out.
b. All deleted or modified line items are priced at the present estimated value.
c. All applicable indirect expense has been considered.
d. In general, audit considerations for open CLINs are similar to terminations, while unopened CLINs more closely resemble equitable adjustment claims.
3. Consider CAS Implications. If the potential contract will be CAS covered, consider contractor compliance with the applicable CAS requirements as part of the proposal evaluation.
4. An independent audit review ensures the proposal will provide a basis for the contracting officer to arrive at both a fair and reasonable price, therefore both potential overstatements and understatements in the proposed cost should be considered. The risk of potential overstated cost estimates is greatest in a sole source non-competitive environment. While the risk of potential understated cost estimates is greatest in a competitive environment.
5. Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.

References
1. CAM Chapter 9, Audit of Cost Estimates and Price Proposals
2. Applicable Non-DoD Agency FAR Supplement(s) (CAM 15-102)
3. Cost Accounting Standards (CAS) CAM Chapter 8
4. FAR 15 and 31; DFARS 215 and 231
5. CAM Chapter 10, Preparation and Distribution of Audit Reports
6. CAM Appendix B, Specialist Assistance

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B-1 Preliminary Steps	WP Reference
Version No. 3.0, dated July 2020	
1. Review the Request for Proposal (RFP):	
<p>a. Determine the contractor’s proposal responsiveness to the RFP (e.g., is the proposal for the supplies or services requested and does the contractor’s proposed quantity match the RFP requirements? etc.).</p>	
<p>b. Identify the type of data required of the contractor (i.e., certified cost or pricing data or data other than certified cost or pricing data). Determine whether the DFARS 252.215-7009 solicitation provision was included in the RFP to establish requirements for an adequate proposal. If the RFP is not clear, discuss the expectations with the requester and document the criteria (FAR, CAS, Agency Supplement, etc.) against which the proposal will be examined. Section L of the RFP should provide instruction on how to submit proposals and information on a specific format to facilitate evaluation. FAR 15.4035(b) provides that the contracting officer may require the proposal in the format of Table 15-2 of FAR 15.408, specify an alternative format, or permit submission in the contractor’s format.</p>	
<p>c. Identify and document any special requirements or provisions (i.e., established rates, hours, time-phasing, material quantities, etc).</p>	
<p>2. Verify that the proposal (or part(s) of a proposal under review) were approved at an appropriate level of management. If so, review the proposal package for adequacy based on the criteria established in Step 1. If the DFARS 252.215-7009 solicitation provision was included in the RFP, the contractor is required to provide the contracting officer with a completed DFARS Proposal Adequacy Checklist with its proposal submission. Auditors should document their conclusions regarding the contractor’s compliance with the requirements for an adequate proposal using working paper 31-a, “Proposal Adequacy Checklist” located in Other Audit Guidance (OAG) to assess and document conclusions about proposal adequacy (CAM 9-103.1b).</p>	
<p>3. Review the audit request for any special requirements. Communicate with the requester as soon as practical.</p>	
<p>a. Confirm your understanding of the expectations and discuss any specific concerns.</p>	

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B-1 Preliminary Steps	WP Reference
<p>b. Discuss with the requester sensitivities and inherent risk factors, such as prior audit findings. If the request for audit is for part of a proposal and based on past experience at the contractor, the team’s professional judgment identifies that additional cost areas should be examined, the team should discuss expanded audit coverage and then communicate the recommendation to expand audit coverage to the contracting officer. Conversely, if the team determines a lesser category of audit service will assist the contracting officer, communicate reduced audit coverage. If the contracting officer does not concur, gain an understanding of the reasons and discuss among the team.</p> <p>Contact the cognizant FLA for assistance, if needed. If the contracting officer does not agree to the recommendation to expand or reduce the audit request and the team is not convinced by the contracting officer’s reasons, consider elevating the issue to the Region for coordination with the command’s Director of Contracts or the equivalent position. Proceed with the audit process for the requested services while coordination is proceeding in other channels. (CAM 9-103.1d(4))</p>	
<p>4. Notify the appropriate contracting officer the commencement of the risk assessment 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>	
<p>5. Coordinate with contractor and obtain a walkthrough of the proposal (or part(s) of a proposal under review) to gain an understanding of the basis of each cost element of the proposal (or part(s) of a proposal under review), the related supporting documentation, and the relevant policies/procedures and processes related to significant cost elements. Invite the cognizant procurement and administrative contracting officers. As part of this walkthrough, require the contractor to identify:</p>	
<p>a. Significant subcontracts and the status of its cost or price analyses. Based on this status, perform an initial assessment to identify and request necessary assist audits (WP B-3). The final assessment of assist audit requirements will be performed in WP S.</p>	
<p>b. Significant interdivisional work and its basis for estimate. Perform an initial assessment to identify and request necessary assist audits (WP B-3). The final assessment of assist audit requirements will be performed in WP I.</p>	
<p>6. Determine the basis of the proposed rates.</p>	
<p>a. If proposed rates are not based on a FPRA/FP RR and have not been audited, perform audit procedures in WP E-1, N-1, T-1 – No Audited Rates based on the risk assessment as appropriate.</p>	

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B-1 Preliminary Steps	WP Reference
<p>b. If proposed rates are not based on a FPRA/FP RR and we have completed an audit of the rates (i.e., government rate position developed based on DCAA audit report), perform audit procedures in WP E-1, N-1, T-1 – Audited Rates.</p>	
<p>c. If proposed rates are based on a FPRA/FP RR and we have not completed an audit of the rates that were used as the basis for the FPRA/FP RR, perform audit procedures in WP E-1, N-1, T-1 – <i>No Audited Rates</i>.</p>	
<p>d. If proposed rates are based on a FPRA/FP RR and DCAA does not agree with the established rates due to the results of a concurrent or recent examination, the team should discuss and document that the concerns have been elevated appropriately. If the concerns have not been resolved, perform audit procedures in WP E-1, N-1, T-1 – <i>Audited Rates</i> based on the risk assessment as appropriate.</p>	
<p>e. If proposed rates are based on a FPRA/FP RR and DCAA has no known concerns with the established rates, perform audit procedures in WP E-1, N-1, T-1 – Established Rates by FPRA/FP RR based on your risk assessment as appropriate.</p>	
<p>f. If the proposal includes rates beyond the period covered by audited rates, perform audit procedures in WP E-1, N-1, T-1 – No Audited Rates for the years beyond the audited rates based on the risk assessment as appropriate.</p>	
<p>7. Assess Materiality. Document the understanding of the proposed basis of each cost element on WP B for each significant cost element of the proposal (or part(s) of a proposal under review). Identify those cost elements that significantly contribute to the total proposed value.</p>	
<p>8. If the evidence to be obtained during the audit is dependent on computerized information systems, document on WP B-2 the audit work performed that supports reliance on the computer-based evidence. Specifically, document or reference one or more of the following in WP B-2:</p> <p><i>NOTE: When sufficient work will not be performed to determine reliability, qualify the audit report.</i></p>	
<p>a. The audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,</p>	
<p>b. The procedures/tests that will be performed in this audit to evaluate the subject matter in this audit that will also support reliance on the evidence, and/or</p>	
<p>c. The tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data.</p>	

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B-1 Preliminary Steps	WP Reference
9. Gain an understanding of the product/service being acquired and related contractor processes to manufacture the product or deliver the service. Identify any significant changes in the contractor's processes that have taken place and consider the potential impact on the proposal and planned audit procedures.	
10. Assess any cost avoidance recommendation from operations audits to determine if there is a significant impact on the proposal. (CAM 9-308)	
11. Review the permanent file to determine whether there are any audit leads affecting the proposal (or part(s) of a proposal under review). If there are applicable audit leads, discuss with the team how they will affect the scope of audit (e.g., the nature, timing, and extent of testing).	
12. Review permanent file to determine if previous audits included findings and recommendations that relate to the subject matter. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures:	
a. 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)	
b. Document the results of the inquiry and the impact of the corrective actions to the subject matter.	
13. 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.	
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 of the audit.	

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B-1 Preliminary Steps	WP Reference
<p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <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. • 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 respond to identified risk.</p>	

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B-1 Preliminary Steps	WP Reference
<p>14. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <ol 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>	
<p>15. 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 DoD IG website Fraud Detection Resources for Auditors for common fraud risk factors. 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. 	

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B-1 Preliminary Steps	WP Reference
<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>	
<p>16. Obtain and document the understanding of the relevant contractor internal controls related to the contractor’s proposal using the framework on WP B2 (e.g., estimating, accounting). Auditors should use the walkthrough of the contractor’s proposal to the extent possible to obtain this understanding.</p>	
<p>17. Conduct an entrance conference. Confirm the team’s understanding of how the proposal values were calculated and discuss the availability of required data and personnel necessary to timely support the audit. If a subcontract, obtain the subcontractor’s written consent for release of the audit report or reason(s) for not authorizing release. (CAM 10-210.4) If applicable, include a follow up with contractor management on:</p> <ul style="list-style-type: none"> a. corrective actions that address previous DCAA audit findings and recommendations, b. other studies or audits that impact the subject matter. 	
<p>18. Identify and document the need for specialist assistance based on the understanding of the basis of estimate. Considering risk and materiality, prepare a detailed request for specialist assistance if required, and document on WP B-03.</p>	
<p>19. Review and discuss with your supervisor (or if appropriate, the audit team) the overall results of the risk assessment and the audit scope planned in response, including the detailed audit steps. Make any further adjustments to the audit program steps necessary to obtain sufficient evidence to provide a reasonable basis for the conclusion that will be expressed in the audit report.</p>	
<p>20. Obtain and document supervisory approval of the risk assessment and the planned scope of examination for each cost element documented in WP B and -01 WPs.</p>	
<p>21. Send an final acknowledgment to the contracting officer in accordance with CAM 4-302.</p>	
<p>22. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	

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D-1 Summary of Direct Labor Costs	WP Reference
Version No. 3.0, dated July 2020	
Calculate the questioned cost due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base using the audit determined rates not questioned (Questioned Base x Audit Determined Rate) and summarize audit results of labor rates (WP E) and labor hours (WP F and/or WP G).	

E-1 Direct Labor Rates - Audited Rates	WP Reference
Version No. 3.0, dated July 2020	
1. If the RFP requires the contractor to bid labor categories other than the rates that were audited, determine if this results in a potential CAS 401 noncompliance.	
2. Determine if any conditions (e.g., expansion of workforce) exist under which the audited forward pricing labor rates should be modified (CAM 9505.7). If the adjustments to the originally audited rates are significant, the team should discuss the need to supplement the audit report in which we opined on the direct labor rates.	
3. Calculate the questioned rates, if applicable.	
4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

E-1 Direct Labor Rates - Established Rates by FPRA_FPRR	WP Reference
Version No. 3.0, dated July 2020	
1. Trace proposed labor rates to the rates specified in the applicable FPRA/FPRR and verify proper application of the rates.	
2. If the RFP requires the contractor to bid labor categories other than those established, determine if this results in a potential CAS 401 noncompliance.	
3. Determine if any conditions (e.g., expansion of workforce) exist under which the established forward pricing labor rates should be modified (CAM 9-505.7). If conclusions differ from any significant rates in the FPRA/FPRR, the team should discuss the need to coordinate with the administrative contracting officer and the potential need to recommend withdrawing from the FPRA/FPRR. CAM 9-1203	
4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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E-1 Direct Labor Rates - No Audited Rates	WP Reference
Version No. 3.0, dated July 2020	
1. Consider the addition of any appropriate audit steps from the 23000 Rate Review audit program.	
2. Document your understanding of the basis of the proposed rates and contractor assertions that the proposed rates are reasonable (i.e., consistent with the current labor market). See step 5 below.	
3. Determine if the proposed direct labor rates are classified consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
4. Evaluate the contractor's method of developing the proposed rates (see CAM 9-505).	
5. If historical data is used to support the basis of estimate, perform substantive audit procedures to determine if the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
<p>6. Evaluate the proposed base labor rates by for reasonableness by performing comparisons to appropriate labor markets (market pricing). Consider the following in determining reasonableness:</p> <ul style="list-style-type: none"> • Contractor's market pricing based on survey data; • Prior reviews of compensation rates and/or pay levels including system audits, if applicable; • The contractor's other practices for establishing compensation; • Independent survey data; • Comparison to other published wage data such as Wage Determinations, Rates of Bargaining Unit Employees, etc. <p>If required, contact the FAO/Regional point of contact or Mid-Atlantic Compensation Team for guidance and assistance in determining the reasonableness of the proposed labor rates. The Mid-Atlantic Compensation Team and most regions have access to surveys that include compensation market data, and have experience related to determining the reasonableness of proposed compensation.</p> <p><i>Note: Compensation pursuant to labor-management agreements (bargaining unit employees) will not be tested for reasonableness under FAR 31.205-6(b)(2). See CAM 6-413.1.</i></p>	
7. Evaluate the proposed escalation factors with consideration given to escalation history, management approved plans, forecasted economic conditions, etc.	
8. Calculate the questioned rates, if applicable.	
9. Document the conclusions, basis of proposed cost and audit evaluation. Discuss with your supervisor and obtain approval.	

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F-1 Direct Labor Hours	WP Reference
Version No. 3.0, dated July 2020	
1. Document your understanding of the basis of the proposed labor hours (see CAM 9-503).	
2. Refer to CAM Appendix B-102 in determining whether to request specialist assistance, and if needed, to formulate the questions to be addressed by the specialist.	
3. Evaluate the contractor's method for estimating each significant class of direct labor hours (see CAM 9-502 and Appendix B-406):	
a. Determine the suitability of historical data for making estimates (i.e., accurate, reliable, and representative.) If the contractor did not identify relevant historical labor hours in its basis of estimate, determine if the labor proposed is identical or similar to a completed or in-process contract. If suitable history is discovered, compare the proposed labor hours with the historical hours taking into consideration the effect of cumulative learning/improvement.	
b. If historical data is used to support the basis of estimate, perform substantive audit procedures to determine if the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
c. Determine if the proposed direct labor hours are classified consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
d. Select a representative sample of proposed direct labor hours in the basis of estimate and trace to the underlying data identified by the contractor. Evaluate the reasonableness of the estimate. Perform analytical procedures to determine if the proposed estimating method has yielded reasonably accurate estimates.	
e. If appropriate, apply QM techniques, such as improvement curves, trend or regression analysis techniques.	
f. Compare experienced labor mix and hours with proposed labor mix and hours.	
4. Incorporate results of the specialist assistance, if applicable.	
5. Calculate the questioned hours, if applicable.	
6. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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G-1 Cost Estimates – Based on Standard Costs	WP Reference
Version No. 3.0, dated July 2020	
1. Document your understanding of the basis of the proposed standard cost/hours including the frequency at which standards are adjusted and the task level at which variances are accumulated and how they are distributed. (CAM 9-314, 6-411, 8-407)	
2. Refer to CAM Appendix B-102 in determining whether to request specialist assistance, and if needed, to formulate the questions to be addressed by the specialist.	
3. Evaluate the contractor’s method for estimating cost based on standards as well as the impact of variances (see CAM Appendix B-407.2h and 8407.1).	
a. If variances are relatively significant, assess the risk that standards are set artificially low for some labor tasks, particularly those in which government products or services have little participation (i.e., standards set relatively low for labor tasks predominately used for commercial contracts creating a variance that is shared by all contract types).	
b. Determine if the proposed direct labor hours are classified consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
c. Trace a representative sample of proposed standards to the underlying reports and records identified by the contractor (e.g., management approved published labor standards, routing sheets).	
4. Incorporate the results of the specialist assistance, if applicable.	
5. Calculate the questioned hours, if applicable.	
6. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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I-1 Interorganizational Work Orders	WP Reference
Version No. 3.0, dated July 2020	
Intracompany Work Orders (CAM 9-105)	
1. Analyze the consolidated bill of material (BOM) that supports the proposal to determine what costs will be covered under the material (Section M), subcontract (Section S), and interdivisional (Section I) (see CAM 9-403).	
2. Determine whether the transfers are based on price or cost.	
3. Transfers Based on Price. Determine if the requirements of FAR 31.20526(e) are met:	
a. It is the established practice of the transferring organization to price inter-organizational transfers at other than cost;	
b. The item being transferred qualifies for an exception to the certified cost or pricing data requirement outlined in FAR 15.403-1(b)); and	
c. The price is fair and reasonable and the best value is obtained.	
4. Transfers Based on Cost. Verify that the data required by the FAR 15.408, Table 15-2, are adequately provided. If an audit of the proposed inter-organizational amount requires field pricing support at another segment location, an appropriate request for assist audit services should be issued to the auditors at the inter-organizational location based on the documented risk assessment.	
5. Review and evaluate significant contractor make-or-buy decision documentation (CAM 9-405).	
6. Incorporate the results of any assist audits received.	
7. Calculate the questioned Intracompany Work Order costs, if applicable.	
8. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

M-1 Direct Material	WP Reference
Version No. 3.0, dated July 2020	
1. Consider the use of statistical sampling or improvement curve techniques, if appropriate (CAM 4-600 and CAM 9-408).	
2. Analyze the consolidated bill of material (BOM) that supports the proposal to determine what costs will be covered under the material, subcontract and interdivisional WP M, S, & I sections respectively (see CAM 9-403). <i>NOTE: When certified cost or pricing data are required/submitted by the vendor/subcontractor, also refer to audit steps in Section S, Subcontracts.</i>	
3. Document your understanding of the basis of the prices, kinds, and quantities of material underlying the proposed cost. (CAM 9-400)	

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M-1 Direct Material	WP Reference
4. Refer to CAM Appendix B-102 in determining whether to request specialist assistance, and if needed, to formulate the questions to be addressed by the specialist.	
5. Verify proposed direct materials, including any significant additive factors (e.g., scrap, rework, spoilage), are classified in a manner consistent with established/disclosed practices and no proposed direct cost is also being proposed as an indirect cost (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
6. Evaluate the support (e.g., history, engineering estimate, etc.) for any significant additive factors (e.g., scrap, rework, spoilage), if the rates were not already audited in a rates and factors review.	
7. If historical data is used to support the basis of estimate, perform substantive audit procedures to determine if the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
8. Trace a representative sample of items of the proposed quantities on the BOM to supporting documents (e.g., RFP, engineering drawings, etc.).	
9. Test a representative sample of proposed unit prices listed on the BOM (see CAM 9-404). Verify that proposed unit prices take into account reasonably anticipated discounts, including quantity and prompt payment discounts. Verify proper handling of minimum buys, potential quote decrements (due to potential negotiated reductions), availability of parts in current inventory (inventory price could be lower), adequate competition, and contractor price analysis.	
10. Review and evaluate significant contractor make-or-buy decision documentation (CAM 9-405).	
11. Identify any significant estimates based on a Long Term Agreement (LTA) and design appropriate evaluation steps (CAM 9-406.3). Consider comparing LTA unit prices to actual unit prices paid during the agreement.	
12. Evaluate proposed escalation with consideration given to escalation history, management-approved plans, forecasted economic conditions, etc. Also, determine that the escalation is calculated in a manner that properly reflects the expected purchase date of the material.	
13. Incorporate the results of the specialist assistance, if applicable.	
14. Calculate the questioned material costs, if applicable.	
15. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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N-1 Indirect Rates –Audited Rates	WP Reference
Version No. 3.0, dated July 2020	
1. If the RFP requires the contractor to use indirect rates other than those that were audited, determine if this results in a potential CAS 401 noncompliance.	
2. Determine if any conditions (e.g., expansion of business base) exist under which the audited forward pricing indirect rates should be modified (CAM 9-1206d). Perform testing to verify that the subject proposal has been considered in the DCAA recommended allocation bases. If the adjustments to the originally audited rates are significant, the team should discuss the need to supplement the audit report in which we opined on the indirect rates.	
3. Calculate the questioned rates and use them to calculate the questioned costs due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base using the rates not questioned (Questioned Base x Rate Not Questioned).	
4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

N-1 Indirect Rates – Established Rates by FPRA_FPRR	WP Reference
Version No. 3.0, dated July 2020	
1. Trace proposed indirect rates to the rates specified in the applicable FPRA/FPRR and verify proper application of the rates.	
2. If the RFP requires the contractor to use indirect rates other than those established, determine if this results in a potential CAS 401 noncompliance.	
3. Determine if any conditions (e.g., expansion of business base) exist under which the established forward pricing indirect rates should be modified (CAM 9-1206d). Perform testing to verify that the subject proposal has been considered in the allocation bases. If conclusions differ from any significant rates in the FPRA/FPRR, the team should discuss the need to coordinate with the administrative contracting officer and the potential need to recommend withdrawing from the FPRA/FPRR.	
4. Calculate questioned indirect cost by applying the FPRA\FPRR rate(s) to any questioned base costs.	
5. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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N-1 Indirect Rates – No Audited Rates	WP Reference
Version No. 3.0, dated July 2020	
1. Consider the addition of any appropriate audit steps from the 23000 Rate Review audit program	
2. Document your understanding of the basis of the proposed rates.	
3. Determine if the proposed indirect rates are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
4. Verify that the period for the proposed rates coincides with the contractor's fiscal year or historical rate period (CAS 406/FAR 31.203(g)).	
5. Determine that the pool expenses and allocation bases are reasonably allocable by complying with FAR 31.201-4 and the applicable CAS (e.g., 403, 410, 418, 420).	
6. For significant indirect pools, compare proposed rates to prior year(s) rates and year-to-date experience and analyze major variances.	
7. Trace a selection of proposed pool and base amounts to the underlying budgetary data identified by the contractor. Determine the suitability of budgetary data (i.e., current, accurate, reliable, and representative).	
8. Verify the proposed rates properly reflect anticipated changes to future operations (CAM 9-702.2).	
9. Review proposed indirect expense accounts by nomenclature to assess the risk that the estimates include unallowable costs per FAR Part 31. Verify that the estimates exclude unallowable expenses and the deletions are reasonably in line with history.	
10. Review selected significant or high risk expense accounts in the pools to evaluate the reasonableness of specific estimates.	
11. Evaluate the proposed allocation base amounts to determine whether the contractor is realistic in determining its probability of obtaining additional work including the impact of the subject proposal. Coordinate, as necessary, with the ACO/acquisition offices to verify the probability of obtaining new work and/or any significant changes in existing programs.	
12. If historical data is used to support the basis of estimate, perform substantive audit procedures to determine if the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
13. Evaluate the reasonableness of the proposed rates using regression analysis when appropriate.	

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N-1 Indirect Rates – No Audited Rates	WP Reference
14. Calculate the questioned rates and use them to calculate the questioned cost due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base amount using the rates not questioned (Questioned Base x Rate Not Questioned).	
15. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

O-1 Other Direct Cost	WP Reference
Version No. 3.0, dated July 2020	
1. Document your understanding of the basis of the proposed ODCs (estimated cost and quantity/requirements). CAM 9-600	
2. Refer to CAM Appendix B-102 in determining whether to request specialist assistance, and if needed, to formulate the questions to be addressed by the specialist.	
3. Trace a selection of proposed ODC costs and quantity requirements to the underlying data identified by the contractor.	
4. Determine if the proposed ODCs are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
5. Evaluate the estimated ODCs to determine the amounts are reasonable and allowable per FAR 31 (CAM 9-600).	
6. Evaluate significant ODC Requirements, if pertinent historical data is available. CAM 9-605.	
7. If historical data is used to support the basis of estimate, perform substantive audit procedures to determine if the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
8. Incorporate the results of the specialist assistance, if applicable.	
9. Calculate the questioned ODC costs, if applicable.	
10. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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P-1 Cost Estimates - Based on Parametric Cost Estimates	WP Reference
Version No. 3.0, dated July 2020	
1. Document your understanding of the basis of the proposed cost. (CAM 9-1000)	
2. Obtain and evaluate the analyses on which the contractor concluded that the CER will produce reliable estimates (see CAM 9-1003). If appropriate, apply QM techniques such as trend or regression analysis techniques to evaluate the estimate.	
3. If historical data is used to support the basis of estimate, perform substantive audit procedures to determine if the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
4. Refer to CAM Appendix B-102 in determining whether to request specialist assistance, and if needed, to formulate the questions to be addressed by the specialist.	
5. Incorporate the results of the specialist assistance, if applicable.	
6. Calculate the questioned cost/hours, if applicable.	
7. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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S-1 Subcontracts	WP Reference
Version No. 3.0, dated July 2020	
Subcontracts (CAM 9-104 and 9-406)	
1. Analyze the consolidated bill of material (BOM) that supports the proposal to determine what costs will be covered under the material (Section M), subcontract (Section S), and interdivisional (Section I) (see CAM 9-403).	
<p>2. Verify that the proposed subcontract(s) were priced in compliance with FAR 15 (i.e., a fair and reasonable price and the best value is obtained). When certified cost or pricing data are required, follow step 3 below. When data other than certified cost or pricing data are required, follow step 4 below.</p> <p><i>Note: Prime/higher-tier contractors are required to obtain and analyze certified cost or pricing data before awarding any subcontract, purchase order, or modification expected to exceed the certified cost or pricing data threshold, unless an exception in FAR 15.403-1(b) applies.</i></p>	
<p>3. Certified Cost or Pricing Data. When certified cost or pricing data are required by the subcontractor determine if the prime/higher-tier contractor obtained and analyzed certified cost or pricing data in accordance with FAR 15.404-3, <i>Subcontract pricing considerations</i>, and FAR 15.408, Table 15-2, II.A.</p>	
<p>a. Evaluate the adequacy of the prime/higher-tier contractor’s cost and price analyses.</p>	
<p>b. If the prime/higher-tier contractor has not completed the required cost and price analyses or if the completed cost and price analyses are inadequate, the audit team should consider historical negotiation reduction factors (CAM 9-404.6) and perform alternative procedures to establish a reasonable basis for the audit opinion.</p>	
<p>c. Determine whether an assist audit is necessary to support the audit opinion that will be rendered for this assignment. (CAM 9-104.2) The audit team should be aware of audits that have been requested by the ACO or PCO and ensure the audit team is on distribution if the audit is necessary for this audit. (CAM 9-104.2b outlines concerns as to when assist audit support may be required to ensure the overall adequacy of the audit of the prime contract proposal.)</p>	
<p>d. For those analyses that are not completed, determine the contractor’s completion schedule. The audit report should identify subcontracts for which the prime contractor has not completed the required analyses and the proposed subcontract costs should be reported in an Exhibit entitled, “FAR 15 Noncompliance: Subcontracts Requiring Contractor Cost/Price Analyses.” The Exhibit should include the completion schedule, including the names of the subcontractors and proposed amounts.</p>	

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S-1 Subcontracts	WP Reference
<p>4. Data Other Than Certified Cost or Pricing Data. When data <i>other than</i> certified cost or pricing data are required by the subcontractor (e.g., adequate price competition, commercial items, etc.) determine if the prime/higher-tier contractor obtained and analyzed the data <i>other than</i> certified cost or pricing data in accordance with FAR 15.404-3, <i>Subcontract pricing considerations</i>, and FAR 15.408, Table 15-2, II.A.</p>	
<p>a. Evaluate the adequacy of the prime/higher-tier contractor's price analysis.</p>	
<p>b. If the prime/higher-tier contractor has not completed the required price analysis or if the price analysis is inadequate, the audit team should consider historical negotiation reduction factors (CAM 9-404.6) and perform alternative procedures to establish a reasonable basis for the audit opinion.</p>	
<p>c. If the prime/higher-tier proposal contains subcontract costs for commercial items, the prime/higher-tier contract audit team should evaluate the adequacy of the Commercial Item Determination (CID). Technical assistance can be requested, if necessary, to support the review of the prime contractor's analysis for aspects such as items that are "of a type," "evolved," or "modifications." Requests for technical assistance for commercial items should be sent to DCMA's Commercial Item Group. Specific information can be found on their website. http://www.dcmamil.commercial-item-group/</p>	
<p>d. Determine whether an assist audit is necessary to support the audit opinion that will be rendered for this assignment (CAM 9-104.2). If the prime/higher-tier's price analysis is supported by sales or pricing data, the prime/higher-tier contract auditor should consider requesting the subcontract audit team to compare the sales/pricing data to the subcontractor's accounting records and report any differences in accordance with CAM 9-108a.</p>	
<p>e. For those price analyses that are not completed, determine the contractor's completion schedule. The audit report should identify subcontracts for which the prime contractor has not completed the required analyses and the proposed subcontract costs should be reported in an Exhibit entitled, "FAR 15 Noncompliance: Subcontracts Requiring Contractor Cost/Price Analyses." The Exhibit should include the completion schedule, including the names of the subcontractors and proposed amounts.</p>	
<p>5. Identify any proposed subcontract costs based on a Long Term Agreement (LTA) and design appropriate evaluation steps (CAM 9-406.3). Consider comparing LTA unit prices to actual unit prices paid during the agreement.</p>	
<p>6. Review and evaluate significant contractor make-or-buy decision documentation (CAM 9-405).</p>	

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S-1 Subcontracts	WP Reference
7. Incorporate the results of any specialist assistance, if applicable.	
8. Incorporate the results of any assist audits received.	
9. Calculate the questioned subcontract costs, if applicable.	
10. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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T-1 Cost Of Money (COM) Rates – Audited Rates	WP Reference
Version No. 3.0, dated July 2020	
1. If the RFP requires the contractor to use COM rates other than those audited, determine if this results in a potential CAS 401 noncompliance.	
2. Determine if any conditions (e.g., expansion of business base, change in asset ownership, etc.) exist under which the established forward pricing COM rates should be modified (CAM 9-1206d). Perform testing to verify that the subject proposal has been considered in the DCAA recommended allocation bases. If the adjustments to the originally audited rates are significant, the team should discuss the need to supplement the audit report in which we opined on the COM rates.	
3. Calculate the questioned rates and use them to calculate the questioned cost due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base using the rates not questioned (Questioned Base x Audit Determined Rate).	
4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

T-1 Cost Of Money (COM) Rates – Established Rates by FPRA_FPRR	WP Reference
Version No. 3.0, dated July 2020	
1. If rates were established without reliance on a DCAA audit, or we do not agree with the FPRA/FPRR, see Step 6 at Appendix B-01. Trace proposed COM rates to the rates specified in the applicable FPRA/FPRR and verify proper application of the rates.	
2. If the RFP requires the contractor to use COM rates other than those established, determine if this results in a potential CAS 401 noncompliance.	
3. Determine if any conditions (e.g., expansion of business base, change in asset ownership, etc.) exist under which the established forward pricing COM rates should be modified (CAM 9-1206d). Perform testing to verify that the subject proposal has been considered in the allocation bases. If conclusions differ from any significant rates in the FPRA/FPRR, the team should discuss the need to coordinate with the administrative contracting officer and the potential need to recommend withdrawing from the FPRA/FPRR.	
4. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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T-1 Cost Of Money (COM) Rates – No Audited Rates	WP Reference
Version No. 3.0, dated July 2020	
1. Consider the addition of any appropriate audit steps from the 23000 Rate Review audit program.	
2. Document your understanding of the basis of the proposed rates.	
3. Determine if the proposed COM rates are consistent with established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)).	
4. Verify that the period for the proposed rates coincides with the contractor's fiscal year or historical rate period (CAS 406/FAR 31.203(g)).	
5. For significant COM pools, compare proposed rates to prior year(s) rates and year-to-date experience and analyze major variances.	
6. Trace a representative sample of the pool and base amounts to the underlying reports and records (e.g., budgetary data, Asset Ledger) identified by the contractor.	
7. Verify that the interest rate, net book values, and allocation bases are current and properly applied for the computation of the facilities capital cost of money factors in the CASB-CMF (CAS 414).	
8. Verify that the proposed cost of money factors and bases are consistent with the CASB-CMF submission and that costs are properly classified for arriving at a profit objective via the Weighted Guidelines method (CAM 9-902).	
9. Determine if the COM computations should be revised to reflect any adjustment to bases arising from increased volume and/or pools for any additional assets attributable to award of this proposal.	
10. If historical data is used to support the basis of estimate, perform substantive audit procedures to determine if the historical data is in reasonable compliance with FAR Part 31 and, if applicable, CAS. The substantive audit procedures may be documented in this assignment or previously completed assignments by reference.	
11. Calculate the questioned rates and use them to calculate the questioned cost due to rate (Questioned Rate x Proposed Base), then calculate the questioned cost due to base using the rates not questioned (Questioned Base x Audit Determined Rate).	
12. Document the conclusions, basis of proposed cost and audit evaluation. Then discuss with your supervisor and obtain approval.	

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A-1 Concluding Steps	WP Reference
Version No. 3.0, dated July 2020	
<p>1. Summarize and document the audit results. In developing the exhibit of proposed and questioned cost by major cost element for WP A, auditors are reminded that only the parts of the proposal that were subject to audit and the audit procedure are complete shall be presented in the summary schedules/exhibits.</p>	
<p>2. Obtain supervisory/management review of the working papers and audit results.</p>	
<p>3. After management approval, conduct and document an exit conference with contractor representative in accordance with procedures specified in CAM 4-304.</p>	
<p>4. Auditors should document and communicate with the contracting officers upon the completion of our audit:</p> <ul style="list-style-type: none"> • Brief the requestor/contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues. • Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings. 	
<p>5. Draft audit report in accordance with CAM 10-200 and any special circumstances that affect the report.</p> <p><i>Note: If the audit procedures necessary to opine on the proposed rates and factors are not complete, disclaim an opinion on the unaudited rates and exclude amounts associated with the unaudited rates from the audit report. The results schedule/exhibit must only show the part(s) of the proposal examined. If trend and budgetary data for all out year rates was not furnished and explained by the contractor, classify the associated costs as unsupported.</i></p>	
<p>6. On proposals expected to result in contracts covered by DFARS 252.2347002, Earned Value Management System (EVMS), provide comments on any deficiencies being reported in surveillance reports in the “Report on Other Matters” section of the report.</p>	
<p>7. Complete the administrative working papers.</p>	
<p>8. If the proposal evaluation disclosed a material weakness/significant internal control deficiency, open a Business System Deficiency (Activity Code 11090) assignment to report the deficiency and submit it to the contractor for comment. This procedure will provide for issuing the business system deficiency report at the same time or shortly after the proposal audit report is issued. (CAM 9-310).</p>	

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A-1 Concluding Steps	WP Reference
9. Related CAS noncompliance reports, if any, should be referenced in the text of the proposal report, and should be issued prior to the proposal audit report if possible.	
10. Update permanent file.	
11. Submit the working paper package and draft report to the supervisor/manager for final review and processing.	