

Master Document – Audit Program

Activity Code 10100	Incurred Cost Audit of Corporate and Home Office Shell
	Version 10.0, dated Feb 2024
B-1 Planning Considerations	
Type of Service - Attestation Examination Engagement	
Audit Specific Independence Determination	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team or who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g., technical specialists) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p>	
Purpose and Scope	
<p>This standard audit program assists the auditor in planning and performing the incurred cost audit of a contractor's corporate, group, or home office (designated as home office hereafter) and/or service center allocations to determine if costs charged to auditable Government contracts are allowable, allocable, and reasonable in accordance with contract terms, applicable generally accepted accounting principles, cost accounting standards, and applicable Government acquisition regulations. Compliance with FAR Part 31 and CAS is an inherent part of every contract audit. Auditors are expected to be knowledgeable of compliance requirements and consider them as applicable in the examination of home office incurred cost.</p> <p>If there are CAS covered contracts at segments that receive allocations from the home office(s) and/or service center(s) covered by this audit, design audit steps to support our opinion on whether the contractor's home office allocation proposal complies with applicable CAS. The amount of testing will depend on materiality and assessed risk considering the level of compliance testing performed in previous CAS and incurred cost audits, changes that have occurred in cost accounting practices and organizational structure, materiality of costs, findings in prior audits, etc.</p> <p>This program will serve as the controlling assignment for the audit of all home office expenses distributed to the various segments of the corporation. The program is intended to provide for the proper planning, performance, and reporting on the audit of contractor's home office allocations. The audit steps in the program should reflect a documented understanding between the auditor and supervisor as to the scope required to comply in an efficient and effective manner with auditing standards and DCAA objectives. It is expected that those portions of the audit that are covered in other work packages will be referenced at the appropriate place in this controlling assignment, including budgeted and actual hours. Audit programs in other work packages should be cross-referenced to the controlling assignment and audit step. <i>The program steps are intended as general guidance and should be tailored (i.e., add/delete/modify) as determined by audit risk.</i></p>	

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Planning Considerations
Prior to commencing the audit, review Agency guidance that may impact the audit and adjust audit scope and procedures appropriately.
References
<ul style="list-style-type: none">• FAR 42.7, and DFARS 242.7, Indirect Cost Rates
<ul style="list-style-type: none">• FAR 31.2, and DFARS 231.2, Contract with Commercial Organization
<ul style="list-style-type: none">• CAM 1-504, Access to Contractor Records
<ul style="list-style-type: none">• CAM 3-2S1 Supplement-Contractor Securities and Exchange Commission Reports
<ul style="list-style-type: none">• CAM 3-2S2 Supplement-Contractor Internal Revenue Service and State Taxes Reports
<ul style="list-style-type: none">• CAM 3-3S1 Special Considerations in Audits of Selected Contract Types
<ul style="list-style-type: none">• CAM 4-400, Audit Working Papers
<ul style="list-style-type: none">• CAM Chapter 6, Incurred Costs Audit Procedures
<ul style="list-style-type: none">• CAM Chapter 8 (8-403 and 8-418), Cost Accounting Standards
<ul style="list-style-type: none">• CAM 10-200, Audit Reports Format and Contents – General
Definitions:
<p>The term "<i>home office</i>" is defined in CAS 403.30(a)(2) as “an office responsible for directing or managing two or more, but not necessarily all, segments of an organization. It typically establishes policy for, and provides guidance to the segments in their operations. It usually performs management, supervisory, or administrative functions, and may also perform service functions in support of the operations of the various segments. An organization that has intermediate levels, such as groups, may have several home offices, which report to a common home office. An intermediate organization may be both a segment and a home office” (CAM 8-403). Since this audit program deals primarily with business units that allocate costs to other business units, audit of service centers is included. Service centers are departments or other functional units, which perform specific technical and/or administrative services for the benefit of other units. Their cost can be allocated partially to specific final cost objectives as direct costs and partially to other indirect cost pools, usually based on units of output (CAM 6-606.3(a)).</p>
<p>The term “<i>segment</i>” is defined in CAS 403.30(a)(4) as “one of two or more divisions, product departments, plants, or other subdivisions of an organization reporting directly to a home office, usually identified with responsibility for profit and/or producing a product or service. The term includes Government-owned contractor-operated (GOCO) facilities, and joint ventures and subsidiaries (domestic and foreign) in which the organization has a majority ownership. The term also includes those joint ventures and subsidiaries (domestic and foreign) in which the organization has less than a majority of ownership, but over which it exercises control.”</p>

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<p>The term “<i>operating revenue</i>” is defined in CAS 403.30(a)(3) as “amounts accrued or charged to customers, clients, and tenants, for the sale of products manufactured or purchased for resale, for services, and for rentals of property held primarily for leasing to others. It includes both reimbursable costs and fees under cost-type contracts and percentage-of-completion sales accruals except that it includes only the fee for management contracts under which the contractor acts essentially as an agent of the Government in the erection or operation of Government-owned facilities. It excludes incidental interest, dividends, royalty, and rental income, and proceeds from the sale of assets used in the business.” In summary, operating revenue is used to describe amounts received or receivable from contracts entered into by a company in the normal course of business.</p>
<p><u>Three-Tier Allocation</u> - CAS 403 distinguishes three broad types of home office expenses. The standard recognizes that some home office expenses incurred for specific segments can be assigned directly (Tier 1). Other expenses, not incurred for specific segments, have a clear relationship (i.e., measurable with reasonable objectivity) to two or more segments (Tier 2). Lastly, the standard recognizes a third type of home office expense (i.e., residual) which possesses no readily measurable relationship to segments (Tier 3). Consistent with this concept of home office expenses, the standard requires that expenses incurred for specific segments are to be allocated directly to those segments to the maximum extent practical (Tier 1). Those expenses not directly allocable, but possessing an objective measurable relationship to segments, should be grouped in logical and homogeneous expense pools and distributed on allocation bases reflecting the relationship of the expenses to the benefiting segments (Tier 2).</p>
<p><u>Residual Expense Allocation (Tier 3)</u></p> <p>Residual expenses - those incurred for managing the organization as a whole - have no readily measurable relationship to segments. The allocation of these expenses will use one of the two methods:</p> <p>(1) an allocation by means of a base representative of the total activity of the segments, if the total residual expenses do not meet certain threshold requirements; or</p> <p>(2) an allocation by a three-factor formula if the residual expenses exceed a specified percentage of total company operating revenue (as defined in CAS 403.40(c)(2).</p> <p>When a particular segment receives significantly more or less benefit from the residual expenses than would be reflected by the allocation (1) or (2) above, a special allocation can be used in conjunction with methods (1) and (2).</p>

<p>B-1 Preliminary Steps</p>	<p>WP Reference</p>
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<p>ADEQUACY</p>	
<p>1. Analysis of the Contractor’s Home Office Allocations Proposal:</p>	

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a. Review the results of the adequacy review of the home office incurred cost proposal and note any audit leads requiring further consideration. Document the impact on the audit.	
b. Determine whether the certified home office incurred cost proposal provides for the reconciliation by account (1) expenses allocated directly to segments or final cost objectives, (2) indirect expense pools and allocation bases and (3) residual expenses, to the contractor’s books and records (MAARs 2 and 14 (CAM 6-610)). If the certified home office incurred cost proposal does not include the contractor’s reconciliations, discuss with the contractor at the entrance conference and request the contractor provide the reconciliation of expenses to its books and records.	
c. Determine which method(s) the home office incurred cost proposal uses for allocating residual expenses to segments, as defined in CAS 403.40(c). Document the results and use the appropriate audit steps in Section H-01.	
d. MAAR 19: Verify and document the mathematical accuracy of the contractor's computations including the calculation of the three-factor formula (if applicable) (CAM 6-611.1a). Generally, the validation of the segment information used in the formula should be done via an assist audit with the cognizant auditor at the segment level (CAS 403.50(c)(1)).	
COMMUNICATION/COORDINATION WITH OTHERS	
2. Contact the contracting officer to notify them of the commencement of audit. Discuss any significant concerns or other information that the contracting officer may have relevant to the audit (e.g., timeframes, significant prior findings, etc.) that will impact the audit and adjust the audit scope and procedures accordingly.	
3. Coordinate with the cognizant auditor(s) at all home office(s) and segment(s).	
a. Coordinate on the reconciliation of incurred cost proposals, assist audit request(s), timing of the audits, and expected completion dates. Incorporate any agreed to dates into the milestone plan.	

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<p>b. If indirect rates are settled at a segment with material dollars before the corporate or intermediate home office audit is completed:</p> <ol style="list-style-type: none"> (1) elevate the situation to the regional/CAD office, (2) notify the ACO that it should not negotiate any future final rates on segments before the corporate or intermediate home office audit is completed, (3) reconsider the materiality and risk for the home office audit, and (4) if it is determined to continue the home office audit, exclude dollars related to the settled indirect rates from the dollars examined calculation and from the total subject matter of audit calculation. 	
<p>c. Request each segment to confirm whether it has any special contract terms/conditions that would impact the allowability of the home office costs.</p> <ul style="list-style-type: none"> • In cases where contract terms at the segment are identified that impact the home office costs, review the contract terms and determine the impact on proposed home office costs. • Design audit steps to address risks related to segment contract terms impacting the home office costs. 	
<p>4. Assess the need for any assist audits. Depending on materiality and risk, assist audit requests can range from full scope audits to procedures using the one audit approach (e.g., verification of segments information used in the three-factor formula and reconciliation of home office allocations and/or billings).</p>	
<p>a. If the components of allocation bases are not under the cognizance of the FAO, request the applicable assistance to verify the main component of the allocation bases.</p>	
<p>b. Determine if the contractor’s proposal identifies significant allocations from segments, other home offices, or service centers and explains how the costs coming in from other segments can be identified in the accounting records. If incoming costs are not clearly identified in the proposal and/or accounting records, request the contractor to explain its processes for receiving, charging, and recording these costs as directly allocated, in logical and homogeneous pools, or as residual expenses. Based on the understanding of the processes, tailor the appropriate assist audit requests and detailed steps to ensure appropriate audit coverage.</p>	

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<p>c. Document the contractor’s process for identifying and excluding unallowable costs and directly associated unallowable costs for lobbying and political activities. Based on the understanding and the significance of costs include steps in the fieldwork to ensure appropriate coverage. If it is determined that interviews of the employees in the Washington area is necessary, using the One Audit Approach, contact the field audit offices that have cognizance of the location (i.e., zip code) in which the contractor’s employees are located. It is important that the prime auditor informs the offsite auditor of all existing risk factors related to these costs.</p>	
<p>d. Draft assist audit requests and/or submit an audit approach plan to the supervisory auditor for approval (if applicable).</p>	
<p>e. Document all assist audit requests on WP B-03.</p>	
DOLLARS EXAMINED & TOTAL SUBJECT MATTER OF AUDIT	
<p>5. Calculate the dollars examined in the home office allocation(s). The estimates should be reasonable approximations of the impact on flexibly priced Government contracts at the segments that receive an allocation from the home office. (Note: The guidance for computing dollars examined is available in the DMIS User Guide or Computation of Dollars Audited Cost Savings WP 02.)</p>	
<p>6. Calculate the total subject matter of audit, which generally equals auditable dollar value for home office incurred cost audits. The primary difference is the total subject matter of audit is not reduced for assist audits, if applicable.</p>	
<p>7. Based on the total subject matter of audit, estimate participation percentages for corporate / home office allocations (Tier 1, 2, & 3) in total, for all tiers, and by individual expense pools within those tiers. This estimate represents the amount of corporate/home office costs allocated to the segment(s) and flexibly priced government contracts.</p>	
<p>a. The participation percentages are an estimate based on information known at the time and usually require communication with the auditors at the segment(s).</p>	
<p>b. The objective is to align the home office costs (Tier 1, 2 & 3) with the associated percentage of those costs allocated to Government contracts at the segments, which allows for adjustments to materiality for these percentages.</p>	
MATERIALITY	
<p>8. Calculate quantified materiality using the materiality formula (CAM 6-107.2.a) and the total subject matter of audit.</p>	

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<p>9. Determine which corporate expense pools allocate significant costs to the segments’ flexibly priced contracts. For those corporate pools, calculate revised quantified materiality in Step 10 below.</p> <p><i>Note: The auditor should not use quantified materiality to determine if the expense pool, in of itself, is significant and requires further testing because the need to test the expense pool is based on materiality of the allocated costs at the segment. Quantified materiality will be used to determine what amounts in the pool to test rather than whether to test a particular pool.</i></p>	
<p>10. Revised Quantified Materiality. For each expense pool that is allocated to flexibly priced Government contracts (i.e. at the segments) adjust the quantified materiality by the expense pool’s applicable participation percentage in order to calculate <i>revised</i> quantified materiality (quantified materiality divided by participation percentage).</p>	
<p>a. <i>Revised</i> quantified materiality is calculated separately for each expense pool, as the participation rates are generally different between the expense pools.</p>	
<p>b. The contractor’s accounting structure and methodology for allocating home office costs may be complex. Regardless, the auditor should determine the participation percentage, and calculate <i>revised</i> quantified materiality on those expense pools where the costs are initially grouped (initial expense pools) and that are comprised of the accounts and cost elements that reconcile to the books and records.</p>	
<p>11. Adjusted Materiality. For each expense pool that is allocated to flexibly priced government contracts (i.e. segments) calculate adjusted materiality based on the revised quantified materiality (CAM 6-107.1.c).</p> <p><i>Note: The contractor’s accounting structure and method of reporting costs should not limit the use of materiality but it may require additional analysis (e.g., data analytics) to properly summarize the cost information prior to the application of adjusted materiality and designing sufficient audit procedures.</i></p>	
<p>a. Reduce the revised quantified materiality at least 20 percent based on auditor judgment. This is the adjusted materiality amount.</p>	
<p>b. Identify significant accounts and cost elements grouped in the expense pool exceeding the adjusted materiality amount.</p>	

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<p>c. Identify significant accounts and cost elements grouped in the expense pool based on risk factors, qualitative characteristics, variability, and/or stated concerns of the contracting officer.</p>	
<p>12. If the contractor charges the same cost across multiple expense pools (e.g. labor cost, pension cost, etc.), the auditor can combine these costs for testing purposes. The costs must be homogenous and the reasons for separating the cost between expense pools should be verified and tested.</p>	
COMMUNICATING THE ENGAGEMENT	
<p>13. Hold an initial planning meeting with your supervisor (or if appropriate, the audit team) to discuss the materiality of the audit based on results of determination of total subject matter of audit and dollars examined. Discuss the audit scope required to meet auditing standards taking into consideration materiality of the audit assignment. Also, include discussion of the milestone plan.</p>	
PERMANENT FILES	
<p>14. Review permanent files (MAAR 3) and readily available information for indicators of risk that may impact the scope of audit. For each of the steps below, document the impact on audit objectives and modify fieldwork audit procedures, accordingly.</p>	
<p>a. Review audit leads (e.g., voluntary disclosures and Form 1s), the CAS disclosure statement for the year under audit, multi-segment contractor responsibility matrix (if applicable), and prior related audits (e.g., CAS audits, and business system) to determine what audit steps were performed and the results of audits to identify key areas to be considered in establishing the audit scope.</p>	
<p>b. Determine if the contractor's accounting practices have changed (48 CFR 9903.302-2 and FAR 52.230-6) since the last applicable CAS compliance audits. Evaluate changes in procedures and practices, contractor structure, materiality, etc. for charging costs as directly allocated, via special allocation, or as residual for consistency with generally accepted accounting principles (GAAP), applicable cost principles, CAS, and disclosed practices (similar to MAAR 7). Be alert for undisclosed changes during the audit. If changes have occurred, document the file and adjust the audit scope accordingly.</p>	
<p>c. Determine whether the contractor used its fiscal year as its cost accounting period. Review the prior year incurred cost submission to determine whether the contractor changed its fiscal year (CAS 406).</p>	

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d. Obtain current organization charts and compare to the organization charts contained in the permanent file to identify any changes in organizational structure requiring follow-up and consideration in audit scope.	
e. Review any Advance Agreements affecting costs in the fiscal year (FY) being reviewed.	
f. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit. If there were findings, auditors should document this information in the risk assessment and perform the following procedures:	
1) During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.	
2) Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.)	
g. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit. If there are no other studies or audits, document that information in the work papers and perform the procedures below.	
(1) During the entrance conference or another appropriate meeting, 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:	
(2) If the review of the perm file or the contractor identifies relevant internal audits:	

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<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. 	
<ul style="list-style-type: none"> Document the results of the determination in writing. 	
<ul style="list-style-type: none"> If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports. 	
<ul style="list-style-type: none"> 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. 	
<ul style="list-style-type: none"> The request, issued by the CAC, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers. 	
<p>(3) 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.). 	
<ul style="list-style-type: none"> Make appropriate adjustments to your risk assessment and planned procedures based on reported findings. 	
<p>(4) Document the results of the inquiries including the response received from contractor's for any request for access to internal audit reports. (If access was not granted this should include the contractor's rationale or justification for not granting access).</p>	
<p>(5) Review the results and determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)</p>	

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<p>15. MAAR 6. Consider the impact of real-time MAAR 6 on audit scope. If labor costs are significant based on materiality or other factors, and no real-time testing was performed or real-time testing was not sufficient, design alternate procedures to test for existence and allocability. [Reminder: the audit team should identify the level of alternate procedures required to opine on the labor costs based on identified risk of the cost element.]</p>	
<p>16. Review applicable board of directors' minutes, audit committee minutes for the year(s) being audited, and other sources (e.g., company website, company newsletters, etc.) for potential audit leads requiring follow-up and consideration in audit scope. (CAM 3-204.17(c), and 6-608.2(b)).</p>	
ANALYTICAL PROCEDURES	
<p>17. MAAR 15: Indirect Cost Comparison with Prior Years and Budgets.</p>	
<p>a. Compare base and pool totals to prior year and budgetary amounts. Identify significant variances, which may require further audit analysis and/or explanation.</p>	
<p>b. Determine if the expense pools structure used to accumulate actual costs is consistent with the CAS disclosure statement applicable to the year under audit and indirect rate structure used to prepare the home office forward pricing proposal(s) for the same year (CAS 403/FAR 31.203). Include or tailor audit steps to address any noted inconsistencies.</p>	
<p>c. Depending on risk and materiality factors, compare final indirect accounts within pools to prior year and budgeted amounts to identify changes in accounting practices, reclassification of costs, critical and sensitive accounts (e.g., lobbying, consulting), new accounts, and accounts with large variances that require further audit analysis and/or explanation.</p>	
<p>d. Perform an analysis to identify accounts not previously tested. Pay particular attention to the expense types that may not be applicable to the business as a whole. Consider the results in the planned audit scope (G-01, Step 1).</p>	

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<p>e. Obtain a list of all transactions for sensitive accounts, new accounts, and accounts with large variances from performing steps a. and c. above. Scan transactions for selected accounts to identify leads such as suspect vendors, related party transactions, high dollar amounts and other transactions that appear sensitive or unusual. Consider these in planning for detailed transaction testing. Be alert for unallowable costs that may not be readily visible. Tailor the detailed audit steps, if necessary, to address any risks identified.</p>	
<p>18. MAAR 8: Comparative Analysis-Sensitive Labor Account (CAM 6-404.6b(4)). Perform a comparative analysis of sensitive labor accounts to identify any sensitive labor charges that vary significantly from prior periods and/or budgetary estimates.</p>	
<p>19. If not provided in the incurred cost proposal, obtain a schedule of compensation costs from the contractor. Analyze significant changes from prior years. Review for compliance with regulatory compensation caps. Assess the level of risk for unreasonable compensation and whether testing should be performed to evaluate compliance with FAR 31.205-6.</p>	
<p>20. Gain an understanding of the contractor’s process in setting the compensation package (executive and non-executive) and ensuring that the aggregate of each element of the total compensation package complies with the allowability and reasonableness requirements of FAR 31.205-6. If the Agency Compensation Team will perform detailed procedures, the FAO and Compensation Team auditors should coordinate with the contractor and obtain a detailed walkthrough of the compensation system. Based on this understanding of the system and identified risks, tailor detailed procedures to test for compliance with FAR 31.205-6.</p>	

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<p>IDENTIFYING AND DOCUMENTING RISK OF FRAUD AND NONCOMPLIANCE WITH LAWS OR REGULATIONS</p>	
<p>21. 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 205.33) b. If any specialists (internal or external) were used in the preparation of the subject matter. If yes, have the contractor explain how the specialists were used in the preparation of the subject matter. (AT-C 205.16) c. 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) d. 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>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.</p>	
<p>22. Hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss the risk assessment. As part of the planning meeting, the audit team should discuss and identify potential noncompliances, whether due to error or fraud that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"> • relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies); • relevant aspects of the contractor and its environment; • risk of material noncompliance due to fraud (e.g., financial incentives, pressures to meet budget or contractual commitments, 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)); 	

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<ul style="list-style-type: none"> • other known factors that increase the risk of material noncompliance with laws and regulations; • the audit team’s understanding of relevant key internal controls. <p>Document risk factors identified that could materially affect the subject matter and design audit procedures to respond to the increased risk of material noncompliance.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p>	
INTERNAL CONTROLS	
<p>23. Obtain and document an understanding of contractor internal controls relevant to the audit. Auditors may obtain a significant portion of this understanding during the walkthrough.</p>	
<p>24. Testing to Payment for Non-Labor Costs. Obtain an understanding of the contractor’s policies, procedures, and processes, including internal controls, applicable to the fiscal year under audit for ensuring timely payment of costs. Consider the contractor’s financial statements and aging of accounts payable, or other considerations that identify risk the contractor is delinquent in paying costs in the ordinary course of business.</p>	
<p>a. Consider the results of testing to payments in other assignments (e.g., accounting/billing system) performed during the incurred cost fiscal year. Document how specific audit work previously performed will impact the current audit program.</p>	
<p>b. Based on the assessed risk, design audit procedures, as necessary, to test the contractor’s compliance with FAR 52.216-7(b)(1).</p>	
<p>(1) If the assessed risk of non-payment is low, it may be appropriate to judgmentally select or statistically sample a universe of all payments (i.e., all non-labor expense accounts) and trace to source documents (e.g., cancelled checks, electronic funds transfers, bank statements, or other evidence of payment).</p>	
<p>(2) If the assessed risk of non-payment is high, design procedures to test for payment as a criterion when testing for allowability.</p>	
<p>OTHER RISK PROCEDURES TO CONSIDER BASED ON MATERIALITY, SIGNIFICANCE, AND APPLICABILITY <i>(Obtain supervisory approval prior to performing these steps.)</i></p>	

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<p>25. Determine the significance of (unclassified) Independent Research and Development (IR&D) cost incurred on or after January 30, 2012 that the contractor proposes to allocate to unsettled flexibly-priced contracts awarded on or after January 30, 2012. These costs are subject to the DFARS 231.205-18(c)(iii)(C) requirement that certain contractors report IR&D information to the Defense Technical Information Center (DTIC) in order to claim the costs as allowable.</p> <p>If significant, determine if the contractor is a "major" contractor as defined in DFARS 231.205-18(a) that is required to comply with the allowability provisions in DFARS 231.205-18(c), and assess the risk of material noncompliance, by accomplishing the following:</p>	
<p>a. During the walk-through, request the contractor to provide rationale for a classification other than "major" as defined in DFARS 231.205-18(a). Coordinate with auditors at the segments to ensure consistency.</p>	
<p>b. For contractors defined as “major” obtain:</p>	
<p>(1) policies and procedures to report IR&D projects to the DTIC database as required by DFARS 231.205-18(c)(iii)(C), and</p>	
<p>(2) access to contractor's input provided to the DTIC database pertaining to IR&D project costs included in the contractor’s incurred cost proposal.</p>	
<p>c. Based on the information obtained, for “major” contractors as defined in DFARS 231.205-18(a) with significant IR&D, assess whether to include audit steps to test that IR&D meets the allowability criteria in DFARS 231.205-18(c). If the auditor selects IR&D for testing, review guidance in MRD 14-PAC-005(R) dated April 24, 2014.</p>	
<p>26. Evaluate the Contractor Insurance and Pension Review (CIPR), the Report on Contractor Pension and Post Retirement Benefit (PRB) Plans, results of CAS related audits and other readily available information to identify potential risk factors or any significant events that may result in a material impact on Government contract costs. Note: DCAA will perform independent CIPR in coordination with DCMA.</p>	
<p>a. Obtain the contractor’s claimed insurance and pension costs by type and assess materiality.</p>	
<p>b. Evaluate the results of prior audits to identify reported deficiencies or noncompliances in the Contractor Insurance and Pension program that affect claimed insurance and pension costs.</p>	

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<p>c. For contractors with qualified defined benefit pension plans, review the Report on Contractor Pension and Post Retirement Benefit (PRB) Plans required in DCAA Instruction 7600.3, and IRS Form 5500, Schedules R (line 9) or Schedule SB (lines 24 and 25) to identify any significant events (e. g., a plan amendment, a change in actuarial assumptions, a segment closing, pension plan termination, curtailment of benefits, etc.) that would require a Contractor Insurance and Pension Review (CIPR) based on the risk assessment. If an audit is warranted, coordinate with the DCMA CIPR team and supervisory auditor, to audit pension costs using applicable standard audit programs for CAS 412 and 413.</p>	
<p>d. Document the results of your analysis and its impact on the scope of audit.</p>	
<p>27. MAAR 4: Review corporate financial statements, tax returns (CAM 3-2S2), and SEC filings (CAM 3-2S1), as appropriate, for significant or unusual items (e.g., legal proceedings, foreign tax credits, joint venture, teaming agreement, etc.) to gain an understanding of the type and nature of the contracting entity that may impact audit objective. Review Management’s Report on Internal Control over Financial Reporting that accompanies the financial statements. Document the potential impact on the scope of audit.</p>	
<p>28. Review the schedule of facilities, layouts, and floor space utilization for the FY under audit. Make inquiries and/or observations to determine if any facilities were/are idle, owned by a related company, or leased to other entities. Consider the results in the planned audit scope.</p>	
<p>29. Health Care Costs. Review contractor policies and procedures for ensuring only costs related to “eligible employees and dependents” have been claimed. Design audit steps in Section G of the audit program, as necessary to respond to the assessed risk, to verify that health insurance premiums and claims for “eligible employee and eligible dependents” are compliant with FAR 31.201-3 and 31.205-6(m).</p>	

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B-1 Preliminary Steps	WP Reference
SUMMARY OF MATERIALITY, RISK ASSESSMENT AND SCOPE OF AUDIT	
30. Conduct an entrance conference:	
a. Coordinate an entrance conference with customer(s) and contractor to:	
<ul style="list-style-type: none"> • Confirm the team’s understanding of the contractor’s home office proposal and supporting data. • Discuss the availability of required data and personnel necessary to timely support the audit. • Discuss any additional walkthroughs or clarifications of the proposal including discussions on allocation processes and specific cost accounts. 	
b. Follow up with contractor management on corrective actions that address previous audits and other study findings and recommendations that impact the subject matter under audit.	
31. Supervisory Approval	
a. Review and discuss with your supervisor the overall results of the risk assessment, materiality, and the planned audit scope. Note that this is the preliminary planned audit scope and changes to the nature, timing, and extent of audit procedures may be deemed necessary during performance of field work. In these situations, adjust the audit program steps as necessary to obtain sufficient appropriate evidence to support the conclusion that will be expressed in the audit report. The adjusted scope and rationale for the adjustments should be clearly documented in the audit program section where the audit program was modified and the preliminary WPs (i.e., WP B section) do not need to be updated for the modifications.	
b. Obtain supervisory approval of the risk assessment and the planned scope of examination identified as material in WP B and - 1 WPs.	
32. Electronically transmit an acknowledgement memorandum to the appropriate Contracting Officer and a notification letter to the Contractor to notify them of the commencement of the audit and expected completion date. The acknowledgement memo and notification letter should be issued in accordance with the procedures in CAM 4-104.	

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C-1 Reconciliation to Records	WP Reference
Version 10.0, dated Feb 2024	
1. MAAR 2: Cost Analysis and Reconciliation to Books. Verify the contractor’s reconciliation of costs allocated to segments, other home offices, and service centers to the contractor's accounting records. Follow-up on significant differences (CAM 6-610.1).	
2. MAAR 14: Pools/Bases Reconciliation to Books. Reconcile claimed expense pools and allocation bases to accounting records. Follow-up on significant differences. Request an assist audit or use the one audit approach if material base costs or data are from business units other than this home office. Incorporate the results of requested assist audits or use of the one audit approach.	
3. MAAR 9: Payroll/Labor Distribution Reconciliation.	
a. Reconcile payroll dollars to related labor cost in the general ledger and labor distribution records.	
b. Review the contractor’s reconciliation of total salaries and wages to payroll tax returns (IRS Form 941) (schedule L, reconciliation of total payroll per IRS form 941 to total labor cost distribution). Perform the MAAR 9 if applicable.	
c. If the Cognizant Federal Agency Official (CFAO) granted the contractor a waiver for submitting Schedule L as part of its annual indirect cost rate proposal, obtain a copy of the waiver. Confirm and document if an alternate Schedule L was submitted. Reconcile the alternate schedule L to labor costs in the submission and to the contractor’s books and records (e.g., general ledger, labor distribution and payroll records).	
4. Reconcile voluntary deletions to the contractor’s books and records and determine if all voluntary deleted account balances are identified and accounted for as unclaimed in the contractor’s proposal, including directly associated unallowable costs in accordance with FAR 31.201-6. Identify any voluntary deletions that will be included in transaction testing. Verify voluntary deletions are properly allocated to segments.	
5. Summarize the results and document any areas requiring further analysis during detailed testing.	

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D-01	Labor	WP Reference
Version 10.0, dated Feb 2024		
1. MAAR 6: Contractor Labor Audit (CAM 6-404). Review and incorporate the results of the MAAR 6 audit effort. Based on the results of the risk assessment and materiality perform additional labor testing procedures, as required, to support the conclusions on the allowability, allocability, and reasonableness of incurred labor costs.		
2. MAAR 8: Comparative Analysis – Sensitive Labor Accounts (CAM 6-404.6b(4)). Evaluate any significant changes in sensitive labor accounts indicate possible misclassification.		
3. MAAR 9: Payroll/Labor Distribution Testing (CAM 6-406.2a (6)). Test quarterly taxes to evidence of payment (e.g., contractor bank statements, electronic funds transfer, or third party payroll processor records) to determine if total taxes owed were paid.		
4. MAAR 10: Adjusting Entries and Exception Reports (CAM 6-404.6b(6)). Evaluate adjusting journal entries and exception reports for labor. Identify significant adjustments or abnormal entries that require further examination. Based on risk and materiality, test labor transfers (adjusting entries). If material amounts of direct labor is charged, design appropriate procedures to test direct labor transactions.		
5. Executive Compensation:		
a. Incorporate the results of assist audits on executive compensation, if applicable.		
b. Verify that executive compensation costs are calculated consistently with the contractor’s policy and procedures. Trace executive compensation costs to the appropriate expense accounts to determine if executive compensation is being evaluated for reasonableness and is compliant with FAR 31.205-6. If necessary, coordinate with the Agency Compensation Team to evaluate the reasonableness of executive compensation. (See also CAM 6-414.3g)		
c. Perform sufficient steps to verify that allocable executive compensation in excess of the statutory compensation ceilings (CAM 6-414) has been appropriately excluded from the contractor's proposal. Costs claimed over the statutory ceiling are expressly unallowable costs.		
d. Determine whether costs for the same executives are included in multiple segments.		
6. Reasonableness of Non-Executive Compensation: Based on the assessed risk, test the reasonableness of compensation for non-executive personnel. Review the contractor’s policies and practices		

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for establishing compensation amounts (including bonuses and incentives) for compliance with FAR 31.205-6. Consider coordinating with the Agency Compensation Team for guidance and assistance. See CAM 6-413.	
7. Incorporate the results of any labor-related assist audits.	
8. Perform additional steps as necessary to determine if directly associated compensation costs were excluded from the proposal (FAR 31.201-6(a)).	
9. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
10. Summarize the audit evaluation, basis of proposed cost, and conclusions on WP D.	

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E-01	MAAR 18 Allocation Bases for Expense Pools/Service Centers	WP Reference
Version 10.0, dated Feb 2024		
1. Review the allocation bases and functions of intermediate and final indirect cost pools described in the contractor’s disclosure statement and/or policies and procedures in effect for the year under audit.		
2. MAAR 18: Indirect Allocation Bases.		
a. Based on assessed risk and materiality, evaluate the contractor’s indirect cost allocation bases and functions of the pools identified in Step 1 above to verify that the actual bases and pools reflect the appropriate cost accounting period (CAS 406).		
b. Compare the composition of the pool and bases in the incurred cost proposal to determine if the pool/base structure is:		
(1) Grouped in logical and homogeneous expense pools that allocate indirect cost to final cost objectives commensurate with the benefits received (CAM 6-606 and 6-610.2; CAS 403, 418, and 420, if applicable).		
(2) Consistent with the preceding year’s incurred cost proposal. If composition of this year’s pools and/or bases differs from the composition of last year’s pools and/or bases, ascertain if there is a corresponding approved cost accounting practice change. If not, discuss the CAS 401 noncompliance with your supervisor to determine how to report the noncompliance.		
(3) Consistent with the forward pricing rate proposal for the same year. If composition of this proposed pools and/or bases differs from the forward pricing rate proposal pools and/or bases, ascertain if a cost accounting practice change has been approved. If not, discuss the CAS 401 noncompliance with your supervisor to determine how to report the noncompliance.		
3. If components of the base are under the cognizance of the FAO, perform the following steps:		
a. Examine the components of the base to determine if all applicable activities that benefit from the pool are included in the base.		
b. If an allocation base is not based on costs, reconcile the amounts that makeup the base to appropriate source documentation. For example, hour base could be traced to labor distribution reports or similar records.		
4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.		

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E-01	MAAR 18 Allocation Bases for Expense Pools/Service Centers	WP Reference
	5. Summarize the audit evaluation, basis of proposed cost, and conclusions on WP E.	

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F-01	Directly Allocated Cost	WP Reference
Version 10.0, dated Feb 2024		
1.	Review the contractor’s disclosure statement and/or direct allocation policies and practices to determine if the contractor has established policies or practices to ensure direct allocations are made to segments to the maximum extent practical (CAS 403.40(a)(1)).	
2.	Evaluate detailed breakdown of directly allocated costs to determine if expenses for specific segments are allocated directly to those segments to the maximum extent practical (CAS 403.40(a)(1)).	
3.	Based on the assessed risk assessment, perform procedures to test directly allocated cost to determine if costs claimed are allowable, allocable, and reasonable, consistently allocated in accordance with applicable GAAP, cost principles, and CAS, and in accordance with the agreement between home office and segments. At a minimum:	
a.	For direct allocation of purchased goods and services, determine if (1) approvals for the purchases were made at appropriate levels of management; (2) materials/services were necessary for the segment/contract; (3) prices and units on invoices match prices and units on the purchase orders and/or consultant and legal agreements; (4) goods or services were received; and (5) cost were properly recorded. Coordinate with the auditor at the segment that receives the allocation, if necessary.	
b.	For direct allocation of cost incurred by the home office for services rendered to the segments: Determine whether there is a causal or beneficial relationship between the directly allocated expense and the receiving business unit.	
4.	Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
5.	Summarize the audit evaluation, basis of proposed cost, and conclusions on WP F.	

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G-01	Expense Pools	WP Reference
Version 10.0, dated Feb 2024		
<i>Note – Consider the use of statistical sampling techniques, if appropriate.</i>		
1. Perform MAAR 16: Indirect Account Analysis (CAM 6-608.2c).		
a. If not already performed as part of the assessment of risk and materiality, review the accounts in the expense pools to understand the types of costs (costs that originated at the home office or Service Center) that are claimed.		
b. Perform transaction testing on the significant accounts selected in the risk assessment to obtain sufficient appropriate evidence to support the conclusions on allowability (FAR 31.201-2, FAR 31.201-6 and CAS 405), allocability (FAR 31.201-4), and reasonableness (FAR 31.201-3) of these costs. Verify these costs are consistently charged in accordance with applicable GAAP, cost principles, CAS, and the contractor has disclosed practices.		
2. Service Centers		
a. Compare the actual practices used for accumulating service center costs to the disclosed practices for the fiscal year under audit.		
b. Verify that the contractor performed a ‘true-up’ at year-end that the billed rates were adjusted to the actual rates, as applicable.		
c. Perform transaction testing on the significant service center costs selected in the risk assessment to determine allowability (FAR 31.201-6), allocability (FAR 31.201-4), and compliance with applicable CAS and disclosed practices.		
d. Incorporate the results of requested assist audits, if applicable.		
3. MAAR 5: General Ledger, Trial Balance, Income and/or Credit Adjustments (CAM 6-608.2d(5)). Document your understanding of the contractor’s methods for accounting for income and credits. Analyze the contractor’s general ledger, trial balance, and entries to income accounts to identify credits or income for which the Government may be entitled to a credit. (e.g., purchase discounts, scrap sales, rental income, excessive company reserves, insurance, unused or unpaid vacation, severance pay and early retirement, and state tax rebates and refunds, etc.) Identify adjustments requiring follow-up.		
4. MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for indirect expenses. Identify significant and/or sensitive adjustments requiring further		

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G-01	Expense Pools	WP Reference
	analysis and explanation (e.g., journal entries reclassifying direct to indirect costs).	
5.	<i>Pensions [Use this section if a separate audit of pensions is not performed]</i>	
	a. Pension costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Review the pension information reported on IRS Forms 5500, 5500-SF (for small businesses) and Schedules SB, R, H and I as appropriate, and develop audit steps to test for compliance with FAR and CAS requirements. Identify any CAS 413.50(c)(12) events and pension plan costs or credits that may result from a segment closing or a curtailed or terminated pension plan.	
	b. If no pension costs are incurred for the year, perform the following steps for defined benefit pension plans:	
	(1) Evaluate the Trustee Report and obtain an explanation for any significant withdrawals of pension assets. Identify any asset and liability transfers reported on IRS Form 5500, “Financial Information,” Schedule H or Schedule I (for small businesses), line 5b and perform additional procedures as needed to verify that Government-contributed pension assets are protected.	
	(2) If the contractor’s practice is to calculate pension costs by segment:	
	i. Verify that the CAS 412.50(b)(7) Pension Harmonization Rule has been applied at the segment level.	
	ii. Verify that the records required by CAS 413.50(c)(7) are properly maintained and that investment earnings of the trust are allocated in accordance with CAS 413.50(c)(7).	
	iii. Determine if the transfer of active or inactive employees among segments distorts the ratio of assets to the actuarial accrued liabilities.	
	iv. If so, verify that assets equal to the employees’ actuarial accrued liabilities (determined using the accrued benefit cost method) were transferred in accordance with CAS 413.50(c)(8) and (9). Consider requesting the assistance of the DCMA CIPR specialist through the ACO (CAM 5-1303.1c).	
	c. Verify that pension costs have been funded in accordance with CAS 412.50(d)(4) and FAR 31.205-6(j)(2)(iii); see IRS Form 5500, Schedule SB, line 18.	

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G-01	Expense Pools	WP Reference
	6. Determine if expressly unallowable costs, mutually agreed to be unallowable costs, cost which have become designated as unallowable by contractor office's, and directly associated costs are identified and excluded from the claimed cost (CAS 405) (FAR 31.201-6(a)).	
	7. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
	8. Summarize the audit evaluation, basis of proposed cost, and conclusions on WP G.	

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H-1 Residual Pool Allocation			WP Reference
Version 10.0, dated Feb 2024			
1. Verify that the expenses included in the residual pool are expenses incurred for managing the organization as a whole and have no readily measurable relationship to segments and cannot be allocated using one of the other CAS 403 methods (CAS 403.40(c)(1)).			
2. If the contractor is not allocating residual pool expenses using the three-factor formula, determine whether the contractor is required to use the three-factor formula (CAS 403.40(c)(2)).			
a. Identify the amount of residual expenses in the contractor’s previous fiscal year.			
(1) Review the incurred cost claim, actual practices, disclosed practices, and/or applicable forward pricing proposals to determine if the contractor makes any “special allocations” of residual expense.			
(2) Verify that unallowable costs are excluded from the proposal.			
b. Identify the total operating revenue for all segments for the previous fiscal year, distribute the operating revenue by the strata below, multiply the amount in each revenue strata times the corresponding percentage, and sum the product of each strata.			
	<u>Operating Revenue</u>	<u>Percentage</u>	
First	\$100M	3.35	
Next	\$200M	.95	
Next	\$2.7B	.30	
Over	\$3.0B	.20	
c. Compare the previous residual expense value obtained in step 2a above to the calculated total value in step 2b. If the residual value exceeds the total value in step 2b, the three-factor formula must be used. <i>If the contractor is not required to use the three-factor formula and does not voluntarily elect to use it, skip to Step 6 below.</i>			
3. Examine the components of the base to ensure all applicable activity is included, except for costs subject to a special allocation under CAS 403.40(c)(3). Verify that all segments of the home office are included in the base.			
4. Determine that the allocation base correctly includes the appropriate amounts for the three-factor formula.			
a. The percentage of the segment’s payroll dollars to the total payroll dollars for all segments.			

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H-1 Residual Pool Allocation	WP Reference
b. The percentage of the segment’s operating revenue to the total operating revenue of all segments. Verify that only net interdivisional purchases are included (amounts charged to other segments reduced by any amounts charged by other segments for purchases).	
c. The percentage of the average net book value of the sum of the segment’s tangible capital assets plus inventories to the total average net book value of such assets of all segments.	
(1) Verify that property held primarily for leasing to others is excluded.	
(2) Verify that inventories are net of progress payment billings.	
(3) Verify that inventories include work-in-process on fixed-price contracts.	
(4) Evaluate whether there are double entries in the three-factor formula (e.g., unbilled costs classified as revenue and inventory).	
5. Recalculate the three-factor formula based on the arithmetical average of the three percentages computed in step 4.	
6. If the contractor is not allocating residual pool expenses using the three-factor formula, verify that the residual expenses are allocated over a base that represents the total activity of the segments (CAS 403.40(c)(1)).	
7. Special Allocation of Residual Expenses (CAS 403.40(c)(3) and 50(d))	
a. Verify that special allocations are consistent with the advance agreement between the contractor and the contracting officer and is disclosed in the Disclosure Statement.	
b. Verify that the special allocation method results in equitable distribution of residual expenses.	
c. Verify that the special allocation base is appropriate to calculate the costs devoted to the segment (CAS 403.50(d)(3)).	
d. Verify that the amount of special allocations is excluded from the residual pool and the corresponding amount received by the segments are excluded from the allocation base.	
e. Review the incurred cost proposal, actual practices, disclosed practices, and/or applicable forward pricing proposals to determine if the contractor makes any undisclosed “special allocations” of residual expenses. If any special allocations are not in accordance	

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H-1 Residual Pool Allocation	WP Reference
with an advanced agreement, compute the impact using the contractor's method of allocating residual expenses, and if significant, prepare a CAS noncompliance report.	
8. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
9. Summarize the audit evaluation, basis of proposed cost, and conclusions on WP H.	

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U-1	Agency Compensation Team: Compensation Reasonableness and FAR Cap Allowability	WP Reference
Version 10.0, dated Feb 2024		
<u>Up Front Communication and Planning</u>		
<p>1. Review the FAO’s request and accompanying data; then discuss the request with the requesting audit team. Verify that all required information is available now or will soon be provided, including:</p> <ul style="list-style-type: none"> • Position descriptions, • Market pricing surveys, • Outside consultant studies, • Compensation policies and procedures, etc. <p>If data is incomplete, make inquiries to determine when the data will be provided. If the data is unavailable, document the explanation and discuss with your supervisor the implications on the planned audit procedures.</p>		
<p>2. Review all FAO prepared risk documentation including inquiries, analytical analyses, etc. Coordinate with the FAO to clarify your understanding of risk, collaborate with the FAO to fine tune the risk conclusions, and document the rationale for the positions selected for further evaluation.</p>		
<p>3. Document your understanding of the contractor’s basis for proposed compensation, including justifications for setting compensation higher than market mean (e.g., financial performance, qualitative factors, etc.). Where the contractor used surveys or an outside consultant to establish compensation, document the contractor’s selected compensation levels, and whether the contractor used performance measures to establish compensation levels (quantitative, qualitative, or both).</p>		
<u>Evaluate Compensation Using FAR Limits</u>		
<p>4. Determine applicable FAR 31.205-6(p) Compensation Limitations. If the contractor did not propose a Blended Cap, proceed to b.</p>		
<p>a. Blended Caps. If the contractor proposed a blended Cap, review the advanced agreement, if available, and coordinate with the FAO to determine whether the rate computation was previously evaluated. Document any prior results and negotiation positions. Discuss with your supervisor and adjust risk and the planned procedures accordingly.</p> <p>For each individual selected, identify the applicable Cap, determine whether the proposed amounts comply, and classify costs in excess of the Cap as unallowable per FAR 31.205-6(p), prior to proceeding with the reasonableness testing.</p>		

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<u>Evaluate Compensation Reasonableness</u>	
<p>5. Thoroughly read each position description and determine whether it is sufficiently described to match a survey description. If inadequate, obtain other documents describing the position’s duties and functions. If it remains inadequate or altogether absent, document this fact, and discuss with your supervisor whether additional procedures are required to effectively match the position to survey data.</p>	
<p>a. Identify the best fit compensation survey for each selected job/position, finding the best match of the company’s revenue, industry, geographic location (area from which employees are recruited and lost), and participation by companies not performing government contracts. Adjust these factors considering the skill complexity of each tested position (e.g., advanced engineers are often recruited nationally while entry-level engineers are not).</p> <p>Apply professional skepticism before using a contractor provided survey, especially if you determine the contractor did not use the survey for its own market pricing, or if the contractor used a single survey to benchmark all position classifications. Document your rationale if choosing not to use the contractor-provided survey.</p> <p>Select the appropriate survey for each position classification and document your rationale.</p>	
<p>6. If the contractor sets base salary higher than market median, consider the merits of the justification, as well as the contractor’s financial performance, and document your conclusions.</p> <p>Determine the appropriate percentile for market pricing each position at the appropriate level, generally limited to the range between the 25th and 75th percentiles. Document the rationale for your determination.</p>	
<p>7. Determine if the contractor is following its established policy or procedure for issuing bonuses and that the award of the bonus takes place.</p>	
<p>8. Update the survey amounts by applying the appropriate escalation factor to the mid-point of the contractor’s Fiscal Year.</p>	
<p>9. Appropriately consolidate the individual survey results.</p>	
<p>10. Determine if the company’s allowable fringe benefits are below market level. If below market, consider the prevailing circumstances before adding an “offset” equal to the difference between the company’s allowable fringe benefits and the market fringe benefits.</p>	
<p>11. Determine if the contractor is claiming Long Term Incentive (LTI) compensation, or whether the circumstances call for a LTI offset. Ensure any LTI is evaluated for allowability and reasonableness.</p>	

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<p>No offset consideration is necessary if you used a total direct compensation survey benchmark, or if LTI plans or LTI awards are not prevalent under the contractor’s circumstance (typically only prevalent when company sales > \$300 million).</p> <p>If LTI compensation is deemed appropriate, ensure it:</p> <ul style="list-style-type: none"> • Only includes allowable cost components, • Is founded using a reasonable base salary, and • Is consistent with the best-fit survey data. 	
<p>12. For each selection, compare the proposed compensation to the reasonable compensation level and question the difference.</p>	
<p><u>Summarize and Communicate Results</u></p>	
<p>13. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	
<p>14. For each selection, document the conclusion, basis of proposed cost, and audit evaluation. Provide the FAO the documentation necessary to understand the evaluation, and to meet our professional standards.</p>	
<p>15. Communicate the results with the FAO audit team and discuss the findings with the contractor as appropriate. Address questions and contractor rebuttals as necessary through the FAO. If significant exceptions, offer to attend negotiations.</p>	

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A-1 Concluding Steps	WP Reference
Version 10.0 dated Feb 2024	
1. Summarize and document the audit results, including any individual working paper packages used to audit specific areas of cost. Identify the requirements of the audit opinion and using professional judgment with consideration to materiality. Select the appropriate opinion based on the evidence obtained.	
2. If the potential expressly unallowable costs were included in the certified proposal, prepare a schedule of questioned costs by potential penalty class and identify the business unit to which they are allocable in the home office audit report (CAM 6-708.5e). Ensure the explanatory notes document the rationale as to why a potential expressly unallowable costs may be a level two penalty, if applicable.	
3. Obtain supervisory review of the working papers and draft audit results section of the audit report before discussions with the contractor.	
4. Prepare final draft audit report in accordance with Agency guidance and obtain management review.	
5. Auditors should document and communicate with the contracting officer upon completion of the audit:	
a. Brief the contracting officer on significant questioned and/or unresolved costs or other significant and/or complex findings/issues, or	
b. Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.	
6. Conduct an exit conference and provide the audit results to the contractor. The contractor’s reaction should be obtained for inclusion in the final draft audit report.	
7. Prepare any required audit leads and submit to supervisor for approval. Update permanent files and risk determination for next fiscal year based on findings/audit results. Determine if DMIS risk classification requires an update.	
8. Prepare and verify accuracy of dollars examined and questioned costs amounts for DMIS reporting.	
9. If significant instances of CAS noncompliances are found, coordinate and discuss with supervisory auditor and report under activity code 19200 in accordance with Agency guidance.	
10. If we identify a business system deficiency during the incurred cost audit, open an 11090 assignment to determine if the deficiency still	

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A-1 Concluding Steps	WP Reference
exists today, and to fully develop and report material weaknesses/significant internal control deficiencies. <i>(Note: The issuance of the incurred cost audit is not dependent on the results of the 11090)</i>	