

Master Document – Audit Program

Activity Code 10100	Post Year End Incurred Cost Audit - Small
Version 6.3, dated Jun 2025	

B-01 Planning Considerations
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 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>
Purpose Scope and Reference can be found on WP 10S.

B-01 Preliminary Steps	WP Reference
Version 6.3, dated Jun 2025	
INITIAL PLANNING	
<ol style="list-style-type: none"> 1. Final Indirect Cost Proposal <ol style="list-style-type: none"> a. Review the "Checklist for Determining Adequacy of Contractor Incurred Cost Proposal" completed during the adequacy review of the incurred cost proposal and note any areas requiring further consideration. b. Review the completed risk-based sampling eligibility determination tool, if applicable. 	
<ol style="list-style-type: none"> 2. Identify and contact the contracting officer to notify them of the commencement of audit. <ol style="list-style-type: none"> a. Discuss any significant concerns or other information that the contracting officer may have relevant to the audit (e.g., risk related to the contractor’s financial condition, statute of limitation dates, significant prior findings, risk-based sampling eligibility determination, contracts that are in overrun position for potential mischarging, etc.) that will impact the audit and adjust the audit scope and procedures accordingly. 	

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<p>b. Request the identification of any closed contracts or settled terminations.</p>	
<p>3. Review of Permanent Files Using the framework of WP B-04, review contractor permanent files to determine if there are areas of risk or potential material misstatement that should be considered when designing audit procedures, this includes audit leads and prior assignments.</p>	B-04
<p>4. Management Inquiries During the entrance conference or other appropriate meeting make the GAGAS required inquiries of contractor management. Using the framework of WP B-05, document the contractor’s response, and identify areas of risk and the impact to the audit scope.</p>	B-05
<p>5. Obtain and document an understanding of contractor internal controls relevant to the overall submission. (For significant cost elements, auditors may obtain this understanding per cost element during the individual walkthroughs.)</p>	B-02
<p>6. Fraud Risk Indicators Using the framework in WP B-09, discuss the fraud risk indicators with the audit team.</p>	B-09
<p>RECONCILIATIONS</p>	
<p>7. Cost Reconciliation to books. Verify the Direct and Indirect costs reconcile to the contractor’s general ledger or other accounting system records that will aid in the evaluation of the subject matter.</p>	
<p>8. Voluntary Deletions Reconcile voluntary deleted items identified in the incurred cost proposal to the books and records and ensure all voluntary deleted account balances are identified and accounted for as unclaimed, including directly associated unallowable costs in accordance with FAR 31.201-6. Identify potential directly associated unallowable costs that may not have been removed from the proposal for consideration in planning transaction testing.</p>	
<p>SCOPE OF AUDIT AND MATERIALITY</p>	

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<p>9. Adjusting Entries Evaluate adjusting journal entries or exception reports focusing on changes between contracts and or CLINS, or direct and indirect costs. Identify additional areas to follow up on.</p>	
<p>10. Dollars Examined and Total Subject Matter of Audit Calculate dollars examined and the total subject matter of audit (CAM 6-107.2b) using the framework of WP B-06.</p>	B-06
<p>11. Government Participation Use the framework of WP B-07 to review the contractor’s calculation and determine Government flexibly priced contract percentages (Government participation) of the indirect expense base(s).</p>	B-07
<p>12. Materiality Assessment Using the framework of WP B-07, perform the following procedures to assess materiality:</p> <p>a. Calculate quantified materiality using the materiality formula (CAM 6-107.2(a)) and the total subject matter of audit calculated in B-06.</p>	B-07
<p>b. Calculate adjusted materiality for significant <i>direct and indirect</i> cost elements (CAM 6-107.1(c)) and identify for further audit procedures:</p> <ul style="list-style-type: none"> • accounts that exceed the adjusted materiality amount; and • accounts with values less than the thresholds that are significant based on risk factors, qualitative characteristics, variability, and/or other stated concerns of the contracting officer. 	B-07
<p>AUDIT CRITERIA</p>	
<p>13. Significant Contract Terms or Provisions Using the framework of WP B-08, determine if contract briefs contain significant contract terms or provisions that impact the audit scope and design appropriate additional audit procedures.</p>	B-08
<ul style="list-style-type: none"> • For contracts ready to close, plan testing to identify any amounts incurred outside the period of performance. Verify that the total amount claimed does not exceed the lesser of the total allowable costs and fee or the funding limitation per the contract brief or per the contract and latest modification. 	
<p>RISK ASSESSMENT SUMMARY</p>	
<p>14. Assess and document the need for technical or other audit assistance.</p>	B-03

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<ul style="list-style-type: none"> • If material flexibly-priced subcontracts or IOTs are identified B-06 assess the need for assist audits in coordination with the cognizant auditors of the lower-tier subcontractors. • Coordinate with Field Detachment as necessary. 	
<p>15. Entrance Conference</p> <p>Conduct an entrance conference, include a sign-in sheet with all attendees at the meeting, and discuss the following:</p> <ul style="list-style-type: none"> • availability of required data and personnel necessary to support the audit, and • the timing and scope of the audit assignment (including report issuance). 	06a
<p>16. Electronically transmit an acknowledgement letter and notification memo to the appropriate Contracting Officer and the Contractor to formally notify them of the audit and expected completion date in accordance with CAM 4-104.</p>	11
<p>17. Summarize in WP B the results and accounts/cost amounts that will be subject to further audit procedures to support the audit opinion.</p>	B

D-01 Direct and Indirect Labor	WP Reference
Version 6.3, dated Jun 2025	
<p>Understanding and Planning: <i>(This - 01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted)</i></p>	
<p>1. Obtain and document an understanding of contractor’s internal controls related to labor.</p> <ul style="list-style-type: none"> • Consideration should be given to any changes in policies for direct/indirect charging since the last accounting system audit or incurred cost audit. 	D-03
<p>2. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	D-02
<p>3. Perform an analysis of the contractor’s labor. Below are suggestions that can be utilized to perform this analysis but are not mandatory.</p> <ul style="list-style-type: none"> • Comparative Analysis - compare current year labor to prior year(s) labor to determine if there are significant changes. • If there are significant T&M contracts, perform a profit margin test. 	
Design Testing Plan:	

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D-01 Direct and Indirect Labor	WP Reference
<p>4. Design testing plan using the steps below.</p> <ul style="list-style-type: none"> • Based on the risk assessment and the understanding and analysis performed above, the steps below should be modified to reflect detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps for labor but may not be applicable to your audit based on the analysis and understanding performed above. 	
Evaluation:	
<p>5. Perform substantive analytical procedures based on materiality and risk.</p>	
<p>6. If real-time testing of labor was performed for the year under audit, document the sufficiency of the procedures performed.</p> <ul style="list-style-type: none"> • Coordinate with Field Detachment as necessary to address labor costs on classified contracts 	
<p>7. Perform test of details for labor costs including both labor hours and labor rates.</p> <ul style="list-style-type: none"> • This should include the Reasonableness of Non-Executive Compensation (including bonuses and awards): <i>If indicated by the materiality and risk assessment.</i> 	
<p>8. For T&M or Labor Hour contracts, based on the preliminary steps, select a sample of contracts for testing of details to include position qualifications.</p>	
<p>9. Executive Compensation (<i>only if material</i>):</p> <p>a. Trace the executive compensation costs to the appropriate G&A and overhead accounts to ensure that all the executive compensation is being evaluated for reasonableness (including bonuses and awards).</p>	
<p>b. Perform sufficient steps to verify that all allocable direct and indirect executive compensation in excess of the statutory compensation ceilings (see CAM 6-414) has either been appropriately:</p> <p>(i) excluded from the contractor’s incurred cost submission, or</p> <p>(ii) identified as expressly unallowable costs and questioned in the audit report.</p> <p><i>If additional assistance is required, see section U and refer to the Agency Compensation Team.</i></p>	
Summarize Results	

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D-01 Direct and Indirect Labor	WP Reference
10. Verify that any questioned labor related costs also consider directly associated costs that should also be excluded/questioned. (FAR 31.201-6(a))	
11. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

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E-01 Direct Material	WP Reference
Version 6.3, dated Jun 2025	
<p>Understanding and Planning: <i>(This - 01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted)</i></p>	
<p>1. Obtain and document an understanding of contractor internal controls related to material.</p> <ul style="list-style-type: none"> • Consideration should be given to any changes in policies for allocating and accumulating costs since the last accounting system audit or incurred cost audit. 	E-03
<p>2. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	E-02
<p>3. Perform an analysis of the contractor’s direct material. Below is a suggestion that can be utilized to perform this analysis but is not mandatory.</p> <ul style="list-style-type: none"> • Comparative Analysis - compare current year material costs to prior year(s) material costs to determine if there are significant changes. 	
Design Testing Plan	
<p>4. Design testing plan using the steps below.</p> <ul style="list-style-type: none"> • Based on the risk assessment and the understanding and analysis performed above, the steps below should be modified to reflect the evaluation of detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps but may not be applicable to your audit based on the analysis and understanding performed above. 	
Evaluation	
<p>5. Perform substantive analytical procedures based on materiality and risk.</p>	
<p>6. Real-time Testing of Purchases Existence and Consumption (CAM 6-305.3a). If applicable, review and incorporate the results of real-time testing.</p> <ul style="list-style-type: none"> • Coordinate with Field Detachment as necessary to address material costs on classified contracts. 	
<p>7. Perform test of details for material costs including allocability and reasonableness for quantity and price. Determine if testing to payment is necessary.</p>	
Summarize Results	

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E-01 Direct Material	WP Reference
8. Verify that any questioned direct material costs also consider directly associated costs that should also be excluded/questioned (FAR 31.201-6(a)).	
9. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

F-01 Subcontracts	WP Reference
Version 6.3, dated Jun 2025	
Understanding and Planning: <i>(This - 01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted)</i>	
1. Obtain and document an understanding of contractor internal controls related to subcontractor costs. <ul style="list-style-type: none"> • Consideration should be given to any changes in policies for allocating and accumulating costs since the last accounting system audit or incurred cost audit. 	F-03
2. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	F-02
3. Perform an analysis of the contractor’s subcontract costs. Below are suggestions that can be utilized to perform this analysis but are not mandatory. <ul style="list-style-type: none"> • Comparative Analysis - compare current year subcontractor costs to prior year(s) subcontractor costs to determine if there are significant changes. • Perform an excessive passthrough analysis to determine if any of the contracts have incurred 70% or more pass-through subcontract costs. 	
Design Testing Plan	
4. Design testing plan using the steps below. <ul style="list-style-type: none"> • Based on the risk assessment and the understanding and analysis performed above, the steps below should be modified to reflect the evaluation of detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps but may not be applicable to your audit based on the analysis and understanding performed above. 	
Evaluation	

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F-01 Subcontracts	WP Reference
5. Perform substantive analytical procedures based on materiality and risk.	
<p>6. Assess allowability (FAR 31.201-2) for selected subcontracts (including fixed priced subcontracts and those flexibly priced subcontracts that assist audits were requested for) issued under flexibly priced prime contracts / upper-tier subcontracts.</p> <ul style="list-style-type: none"> • Coordinate with Field Detachment as necessary to address subcontract costs on classified contracts. 	
<p>a. Determine if the subcontract costs are allocable (FAR 31.201-4) to the prime contract (i.e. was effort consistent with (sub)contract requirements, is the subcontract SOW consistent with prime contract, etc.?)</p>	
<p>b. Determine if subcontract costs are reasonable (FAR 31.201-3) at prime contract level.</p> <p><i>[Note: For some subcontracts, this could have been previously tested in prior incurred costs audits or during the price proposal audit. Reliance should be placed on prior audits to the maximum extent possible.]</i></p> <ul style="list-style-type: none"> • This may involve reviewing the purchasing file for evidence of reasonableness. This may include the basis for subcontract selection, cost/price analysis, adequate competition, make/buy decision, verifying materials/services were needed, etc. • If the contractor has little or no evidence to support reasonableness, consider alternate procedures that can be performed to test for reasonableness. <p><i>[Note: Costs should not be questioned if reasonableness cannot be established. If significant, a reservation on the engagement should be reported as well as the noncompliance with FAR 31.201-2(d).]</i></p> <ul style="list-style-type: none"> • If the costs are deemed unreasonable, design procedures to develop an audit position on the unreasonable portion and question accordingly. 	
<p>7. If assist audits were received, address any significant questioned costs in the assist audit report that pertain to your contracts with the prime or upper-tier contractor. Obtain the prime or upper-tier contractor’s position on the questioned costs. Incorporate the questioned costs after considering prime / upper-tier contractor’s position. Follow-up on requested assist audits that have not been received.</p>	
<p>OTHER PROCEDURES THAT MAY NEED TO BE PERFORMED</p> <p><i>[Note: These steps may not be applicable for the majority of small contractors. Discuss with your supervisor and obtain approval prior to performing these steps.]</i></p>	

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F-01 Subcontracts	WP Reference
<p>8. <i>Excessive Pass through Charges (FAR 52.215-23, previously DFARS 252.215-7004, the DFARS clause became effective for all contracts awarded after 4/26/2007 and the FAR clause became effective 10/14/2009). Contractors are required to identify the percentage of work that will be subcontracted. When the percentage of total subcontract effort is greater than 70 percent of the total work to be performed (at total contract level), the contractor must provide information supporting the value it adds with regard to the subcontracted work. Ensure the submission does not include unallowable excessive pass-through charges in accordance with FAR 52.215-22 and FAR 52.215-23.</i></p> <p>a. <i>If the contract contains FAR 52.215-23 Alternate I, the contracting officer made a determination at the time of award that the prospective contractor has demonstrated that its functions provide added value to the contracting effort and there are no excessive pass-through charges. Auditors should:</i></p> <ul style="list-style-type: none"> • <i>Compare the contractor demonstrated value added functions with those disclosed to the contracting officer at the time of award to ensure the functions billed or incurred are consistent with the contracting officer’s determination; and</i> • <i>Ensure the disclosed value-added functions were performed and are reasonable.</i> 	
<p>b. <i>If the contract does not contain FAR Alternate I, the auditor perform procedures to determine if the contractor incurred excessive pass through charges as defined in FAR 52.215-23.</i></p>	
<ul style="list-style-type: none"> • <i>Request the contractor to identify the value added functions it provided consistent with the definition in the contract clause.</i> 	
<ul style="list-style-type: none"> • <i>Verify the disclosed functions were performed, are reasonable and represent value added effort.</i> 	
<ul style="list-style-type: none"> • <i>FAR 52.215-23(c) requires the contractor to notify the Contracting Officer if there are changes in subcontract effort after award that results in it exceeding 70% of total contract value. The auditor should request the contractor to provide evidence of written notification to the contracting officer that more than 70 percent of the total costs of the work to be performed by subcontractors. If the contractor did not comply with this requirement, the auditor should notify the CO and consider if a DFARS system deficiency exists.</i> 	
<p>c. <i>If the functions were not performed or add no or negligible value to the contract, then the indirect costs added by the prime contractor to the subcontracted work should be questioned as excessive pass through charges in accordance with FAR 31.203(i).</i></p>	

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F-01 Subcontracts	WP Reference
Summarize Results	
9. Verify that any questioned subcontractor costs also consider directly associated costs that should also be excluded/questioned. (FAR 31.201-6(a))	
10. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

G-01	Other Direct Costs (ODC)	WP Reference
Version 6.3, dated Jun 2025		
Understanding and Planning: <i>(This - 01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted)</i>		
1. Obtain and document an understanding of contractor internal controls related to other direct costs. <ul style="list-style-type: none"> Consideration should be given to any changes in policies for allocating and accumulating costs since the last accounting system audit or incurred cost audit. 	G-03	
2. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	G-02	
3. Perform an analysis of the contractors Other Direct Costs (ODC). Below is a suggestion that can be utilized to perform this analysis but are not mandatory. <ul style="list-style-type: none"> Comparative Analysis - compare current year other direct costs to prior year(s) other direct costs to determine if there are significant changes. 		
Design Testing Plan		
4. Design testing plan using the steps below. <ul style="list-style-type: none"> Based on the risk assessment and the understanding and analysis performed above, the steps below should be modified to reflect the evaluation of detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps but may not be applicable to your audit based on the analysis and understanding performed above. 		
Evaluation		
5. Perform substantive analytical procedures based on materiality and risk.		
6. For selected transactions, perform test of details including allocability and reasonableness. Determine if testing to payment is necessary.		

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<ul style="list-style-type: none"> Coordinate with Field Detachment as necessary to address ODCs on classified contracts. 	
Summarize Results	
7. Verify that any questioned other direct cost also considers directly associated costs that should also be excluded/questioned (FAR 31.2016(a)).	
8. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

H-01 Indirect Expenses	WP Reference
Version 6.3, dated Jun 2025	
Understanding and Planning: <i>(This - 01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted)</i>	
1. Obtain and document an understanding of contractor internal controls related to Indirect Expenses. <ul style="list-style-type: none"> Document any changes in policies for direct/indirect charging since the last accounting system audit or incurred cost audit. 	H-03
2. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	H-02
3. General Ledger, Trial Balance, Income and/or Credit Adjustments (CAM 6-608.2d (5)). Document your understanding of the types of income and credits occurring at this contractor, and your understanding of the contractor’s methods for accounting for income and credits. <ul style="list-style-type: none"> Analyze the contractor’s general ledger, trial balance and entries to profit accounts and other income accounts to identify any credits or income that have not been accounted for which the government may be entitled to a credit. Examples include purchase discounts, scrap sales, rental income, excessive company reserves, insurance and state tax rebates and refunds, etc. Identify adjustments requiring follow-up. 	
4. Perform an analysis of the contractor’s indirect rates. Below are suggestions that can be utilized to perform this analysis but are not mandatory. <ul style="list-style-type: none"> Comparative Analysis – compare current year pool and base amounts to prior years amounts to determine if there are significant changes. Relationship Analysis 	
Design Testing Plan	

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H-01 Indirect Expenses	WP Reference
<p>5. Design testing plan using the steps below.</p> <ul style="list-style-type: none"> Based on the risk assessment and the understanding and analysis performed above, the steps below should be modified to reflect the evaluation of detailed testing that needs to be complete to express an opinion. The steps below cover basic audit steps but may not be applicable to your audit based on the analysis performed above. 	
Evaluation	
<p>6. Perform substantive analytical procedures based on materiality and risk.</p>	
<p>7. Perform test of details for expenses to obtain sufficient evidence for allowability, allocability, and reasonableness of these costs. Determine if testing to payment is necessary.</p>	
<p><i>OTHER PROCEDURES THAT MAY NEED TO BE PERFORMED</i> <i>[Note: These steps may not be applicable for the majority of small contractors. Discuss with your supervisor and obtain approval prior to performing these steps.]</i></p>	
<p>8. <i>Cost of Money – Based on materiality and the analysis above verify the amounts on the CASB-CMF form, Facilities Capital Cost of Money Factors Computation, to source documents and verify the accuracy of the contractor’s calculations.</i> <i>Ensure the contractor used applicable cost of money rate for that FY from (https://www.fiscal.treasury.gov/prompt-payment/rates.html). (CAM 8-414.2).</i></p>	
<p>9. <i>Indirect Cost Limitation for Basic Research Awards: Review the contractor briefs to ascertain the contractor’s “basic research” awards and the applicable FY appropriated funds paid. If the contractor has Basic Research Awards, see CAM 6-612.</i></p>	
<p>10. <i>Pension Costs. Pension costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Therefore, divisional auditors may need to request an assist audit from the FAO cognizant of the corporate home office.</i></p>	
<p>a. <i>If the costs are auditable at your location and significant, (i.e., material and/or risk factors have been identified) develop an audit program considering the FAR and CAS requirements (e.g., relevant audit steps may be considered from the CAS compliance audit programs). Identify any terminated pension plan costs or credits on the books for this contractor or for acquired or absorbed divisions or other division employees for further review.</i></p>	

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H-01 Indirect Expenses	WP Reference
<p><i>b. If the costs are significant (i.e., material and or risk factors have been identified), test contractor contributions under employee pension plans to evidence of payment (i.e., contractor bank statements, electronic funds transfer, or third party payroll processor records).</i></p>	
<p><i>11. Health Care Costs. As part of the review of health care costs, verify the contractor included only health insurance premiums and claims for “eligible dependents”. Request the contractor to demonstrate its procedures for ensuring only costs related to eligible dependents have been included in the proposed allowable costs. Based on the understanding of the contractor’s processes and overall risk, design procedures to test proposed allowable costs are related to only eligible dependents.</i></p>	
<p><i>12. IR&D/B&P. If the contractor is identified as a major contractor in the preliminary steps (DFARS 231.205-18(a)), verify the IR&D/B&P costs meet the allowability criteria in DFARS 231.205-18(c). Obtain Costs by Element for each IR&D/B&P project. For significant IR&D projects review the project descriptions, work documents, invention reports to determine if they meet the FAR 31.205-18 and CAS 420 definitions Applied Research, Basic Research, or Development.</i></p>	
<p><i>13. If requested assist audit(s) for significant corporate or home office allocations, or shared service cost allocations were received, compare the allowable costs in the assist audit report(s) to the amounts in the prime / upper-tier segments ICP. Determine the impact, if any, on the final rates. Follow-up on requested assist audits that have not been received.</i></p>	
<p>Summarize Results</p>	
<p>14. Verify that any questioned indirect costs also consider directly associated costs that should be questioned/excluded (FAR 31.201-6(a)).</p>	
<p>15. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.</p>	

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I-01	Inter-Organizational Transfers (IOTs)	WP Reference
Version 6.3, dated Jun 2025		
<p>Understanding and Planning: <i>(This - 01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted)</i></p>		
<p>1. Obtain and document an understanding of contractor internal controls related to interorganizational transfers.</p> <ul style="list-style-type: none"> • Consideration should be given to any changes in policies for allocating and accumulating costs since the last accounting system audit or incurred cost audit. 	I-03	
<p>2. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	I-02	
<p>3. Perform an analysis of the contractors Interorganizational Transfers (IOTS). Below are suggestions that can be utilized to perform this analysis but are not mandatory.</p> <ul style="list-style-type: none"> • Comparative Analysis - compare current year IOTs to prior year(s) IOTs to determine if there are significant changes. 		
Design Testing Plan		
<p>4. Design testing plan using the steps below.</p> <ul style="list-style-type: none"> • Based on the risk assessment and the understanding and analysis performed above, the steps below should be modified to reflect the evaluation of detailed testing that needs to be complete to express an opinion. The steps below cover basic audit steps but may not be applicable to your audit based on the analysis performed above. 		
Evaluation		
<p>5. Perform substantive analytical procedures based on materiality and risk.</p>		
<p>6. Determine if the selected IOTs were transferred and included in the incurred cost proposal based on costs incurred, as required by FAR 31.205-26(e). If the IOT was transferred and included in the incurred cost proposal based on price (cost plus profit), evaluate compliance with FAR 31.205-26(e)(1) and (2), which provides for an allowance based on price when:</p>		
<p>a. It is the established practice of the transferring organization to price inter-organizational transfers at other than cost for commercial work of the contractor or any division, subsidiary, or affiliate of the contractor under a common control; and</p>		
<p>b. The items being transferred qualifies for an exception under FAR 15.403-1(b) (supported by adequate price competition or sales data</p>		

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as applicable) and the contracting officer has not determined the price to be unreasonable.	
7. Perform the following to assess allowability (FAR 31.201-2) of selected IOTs issued under flexibly priced prime contracts:	
a. IOT Agreement. Verify a proper agreement exists between the authorizing and performing organizations.	
b. Based upon how IOT costs are booked/received by the prime segment, design procedures to ensure the proposed / billed IOT costs: <ul style="list-style-type: none"> • Reconcile to performing segments books or billings (if submitted). 	
<ul style="list-style-type: none"> • Are in compliance with contractual terms and IOT agreement (i.e., special limitations, T&M contracts - FAR 52.232-7 payment clause, etc.) <p><i>(Note: Depending upon the contractor's specific practices, this may not be feasible without an assist.)</i></p>	
Summarize Results	
8. Incorporate any questioned costs from assist audits received on performing segments and follow-up on any outstanding assist audits.	
9. Verify that any questioned IOT costs also consider directly associated costs that should be questioned/excluded (FAR 31.201-6(a)).	
10. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

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U-1	Compensation Reasonableness and FAR Cap Allowability	W/P Reference
Version 6.3, dated Jun 2025		
<u>Up Front Communication and Planning</u>		
1.	<p>If the Agency Compensation Team is performing the detailed testing, 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>	
2.	<p>Review all risk documentation including inquiries, analyses, etc. If the Agency Compensation Team is performing the detailed testing, 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>	
3.	<p>To the extent not already documented in the risk assessment, or the labor section, 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>		
4.	<p>Determine applicable FAR 31.205-6(p) Compensation Limitations. If the contractor did not propose a Blended Cap, proceed to b.</p> <p>a. Blended Caps. If the contractor proposed a blended Cap, review the advanced agreement, if available, and coordinate with the FAO to determine whether the rate computation was previously evaluated. Document any prior results and negotiation positions. Discuss with your supervisor and adjust risk and the planned procedures accordingly.</p>	

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<p>b. For each individual selected, identify the applicable Cap, determine whether the proposed amounts comply, and classify costs in excess of the Cap as expressly unallowable per FAR 31.205-6(p), prior to proceeding with the reasonableness testing.</p>	
<p><u>Evaluate Compensation Reasonableness</u></p>	
<p>5. Thoroughly read each position description and determine whether it is sufficiently described to match a survey description. If inadequate, obtain other documents describing the position’s duties and functions. If it remains inadequate or altogether absent, document this fact, and discuss with your supervisor whether additional procedures are required to effectively match the position to survey data.</p>	
<p>6. Identify the best fit compensation survey for each selected job/position, finding the best match of the company’s revenue, industry, geographic location (area from which employees are recruited and lost), and participation by companies not performing government contracts.</p> <ul style="list-style-type: none"> • Adjust these factors considering the organizational level of each tested position (e.g., executives and advanced level employees are often recruited nationally while entry level employees are not). • Select the appropriate survey for each position classification and document your rationale. 	
<p>7. If the contractor sets any element of compensation higher than market median, consider the merits of the justification, as well as the contractor’s financial performance, and document your conclusions.</p> <p>Determine the appropriate percentile for market pricing each position at the appropriate level, generally limited to the range between the 25th and 75th percentiles. Document the rationale for your determination.</p>	
<p>8. 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 a reasonable fringe benefits amount using market surveys. Add this amount as a component of total reasonable compensation.</p>	
<p>11. Determine if the contractor is claiming Long Term Incentive (LTI) compensation, or whether the circumstances call for a LTI allowances. Ensure any LTI is evaluated for allowability and reasonableness.</p> <p>No allowance 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.</p>	

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<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. Consolidate the individual compensation element survey results (e.g. total cash compensation, fringe, LTI) to determine a total reasonable compensation amount.</p> <ul style="list-style-type: none"> • Ensure that the total reasonable compensation includes an amount for all proposed compensation elements. 	
<p><u>Summarize and Communicate Results</u></p>	
<p>13. 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. Document the elements of a finding related to questioned compensation costs.</p>	
<p>14. 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-01 Concluding Steps	WP Reference
Version 6.3, dated Jun 2025	
<p>1. Summarize and document the audit results and identify the requirements of the audit opinion and using professional judgment select the appropriate opinion based on the evidence obtained.</p> <p>Consider quantitative and qualitative materiality for misstatements (e.g. questioned costs) taken individually, and in aggregate, when evaluating the type of opinion.</p>	A
<p>2. Calculate the total questioned costs. Determine if the questioned amounts are material in both the individual cost element and in the aggregate.</p> <ul style="list-style-type: none"> • Determine if any of the costs questioned are expressly unallowable. <i>(Expressly unallowable costs must be reported to those charged with governance, i.e., The ACO and PCO as applicable)</i> • If any costs are expressly unallowable determine if the costs are subject to penalties. 	
<p>3. Obtain supervisory review of the working papers, and draft audit results section of the audit report before discussions with the contractor.</p>	
<p>4. Prepare the draft rate agreement letter, and audit report in accordance with Agency guidance and obtain supervisory review.</p>	
<p>5. Auditors should document and communicate with the contracting officers upon the completion of our audit and approval of the supervisor.</p> <ul style="list-style-type: none"> • Coordinate with procurement contracting officers (PCO) for direct costs and administrative contracting officers (ACO) for indirect costs. Request assistance from the FLA or the contractor, if needed. • Coordinate with the cognizant contracting officers (or cognizant auditor) to determine the reporting detail necessary for the contracting officers to make a penalty determination (e.g., Explanatory Notes, Explanatory Notes & Exhibit, etc.) At a minimum, the report should identify questioned costs potentially subject to penalty and include supporting rationale (FAR 42.709-2(b)). 	
<p>6. Conduct an exit conference and provide the audit result to the contractor. The contractor’s reaction should be obtained for inclusion in the final draft audit report.</p>	06b
<p>7. If the contractor does not agree with the questioned cost(s) draft a DCAA Form 1 in accordance with CAM 6-900.</p> <p><i>[Note: Questioned cost for subcontract effort that is not concurred should be resolved at the prime level (prime contractor and prime’s CFAO) using DCAA Form 1 procedures (CAM 6-900). FD Auditors will prepare and send Form 1s applicable to classified contract customers.]</i></p>	

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A-01 Concluding Steps	WP Reference
8. Prepare any required audit lead sheets and submit to supervisor for approval. Update permanent files and risk determination for next fiscal year based on findings/audit results. Determine if the DMIS risk classification requires an update.	
9. Prepare and verify accuracy of dollars examined, questioned costs, and sustained questioned costs amounts for DMIS reporting.	02
10. If significant instances of CAS noncompliance are found, coordinate and discuss with supervisory auditor and report under activity code 19200 in accordance with Agency guidance.	
<p>11. If we identify a business system deficiency during the incurred cost audit, open an 11090 assignment to determine if the deficiency still exists today, and to fully develop and report material weaknesses/significant internal control deficiencies.</p> <p><i>Note: The issuance of the incurred cost audit is not dependent on the results of the 11090.</i></p>	