MASTER AUDIT PROGRAM

Activity Code 17200	**Claim Audit, Other**
Version 8.3, dated Jan 2026	
B-1	**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. *(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this working paper. For example, an FAO may add additional auditors (e.g., technical specialists) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)*	
Purpose and Scope	
1. This standard audit program assists the audit team in planning and performing the review of the contractor's equitable adjustment proposal or claim. The primary purpose of this audit is to evaluate the quantum (amount of the monetary adjustment) aspect of an equitable adjustment proposal or claim submitted under the disputes clause (FAR 52.233-1), the changes clause (FAR 52.243), or other basis to determine if the proposed or claimed costs comply with the terms of the contract and DFARS 252.243-7001, Pricing of Contract Modifications (or similar supplemental regulation clause). The audit team should evaluate the reasonableness, allocability, and allowability of amounts submitted by the contractor related to proposed or claimed increased/decreased costs due to the events giving rise to the adjustment.	
2. **Note:** This is not an audit package for a delay or disruption proposal or claim, which represents a unique type of equitable price adjustment arising from a contractor's assertion of increased costs. Delay or disruption proposals or claims are requests to recoup costs as a result of Government caused suspension, delay or interruption of all or part of the work of a contract. Audits of delay or disruption proposals or claims should be performed using the DELAY-DISRUPTION selection from the Sub-activity Screen in the Audit System. If a contractor's submission seeks recovery of a delay or disruption, use the DELAY-DISRUPTION audit program.	
3. The focus should be on the isolation of incremental cost increases (reasonable costs that would not have been incurred "but for" the asserted Government action or inaction) for which the contractor can demonstrate a logical causal connection to Government-directed-out-of-scope work or other Government actions/inactions. Also, consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.	
4. The contractor's entitlement to an equitable adjustment is a legal determination on whether the contractor has been impaired by Government action/inaction. Ensure audit steps address the contractor's compliance with contract terms and regulations and do not reference	

"entitlement." Meaningful observations bearing solely on entitlement should be conveyed to the contracting officer in the report as an Appendix, Report on Other Matters.
5. The audit team should adjust the audit program based on the documented risk assessment and reflect an understanding within the audit team as to the scope required. The program steps should be tailored, as appropriate.
Planning Considerations
1. An equitable adjustment may be submitted as a proposal or a claim under the disputes clause of the contract. A request for equitable adjustment (REA) proposal is generally submitted under DFARS 252.243-7002, Requests for Equitable Adjustment, to request a contract modification in price and/or performance period necessitated by an unplanned Government change in the contract terms or conditions. A claim is generally submitted under FAR 52.233-1, Disputes, which defines a claim as a written demand/assertion seeking, as a matter of right, payment of money in a sum certain, an adjustment or interpretation of contract terms, or other relief arising under or related to the contract, submitted to the contracting officer for a decision. A claim submitted under FAR 52.233-1 may also be referred to as a CDA claim (i.e., a claim submitted under the Contracts Disputes Act). The certification requirement is different for an REA vs. a claim. When the aggregate amount (additions plus deletions) of an REA exceeds the simplified acquisition threshold defined in FAR 2 and FAR 13.2, the certification requirement is found in DFARS clause 252.243-7002. A CDA claim requires two additional certifications as specified in FAR 52.233-1(d).
2. Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, etc.
References
1. CAM Chapter 12, Auditing Contract Termination Delay Disruption and Other Price Adjustment Proposals or Claims
2. FAR 33, Protests, Disputes, and Appeals
3. FAR 52.233, Protests, Disputes, and Appeals clauses, as applicable
4. FAR 43, Contract Modifications
5. FAR 52.243, Changes clauses as applicable
6. For construction contracts, FAR 31.105, Construction and Architect-Engineer Contracts
7. For construction contracts, DFARS 252.236-7000, Modification of Proposals – Price Breakdown
8. DFARS 252.243-7002, Requests for Equitable Adjustment
9. CAM Appendix B, " Specialist Assistance"

B-1	Preliminary Steps	WP Reference
Version 8.3, dated Jan 2026		
1. Review the audit request for any special requirements. Communicate with the requestor as soon as practical regarding the following: a. Gather background information on the REA or claim. Discuss the background of the asserted change/dispute with the contracting officer (and Government trial attorney, if appropriate). Obtain an understanding of the Government's position on the asserted changed condition. Document any disputes between the contractor and the Government concerning asserted inaccuracies in technical specifications or additional requirements that may have a significant effect on labor, materials, and other proposed or claimed costs. b. Ascertain any known concerns impacting the audit. c. Discuss the availability of specialist assistance. Consider where specialist assistance is needed in areas such as: • Evaluating the reasonableness of factors used for any proposed or claimed loss of efficiency or learning; • Evaluating excess material or labor to determine the cost realism of the bid or negotiated cost elements; • Interpreting work schedules (CAM 12-805.4d); • Interpreting and using Corps of Engineers (COE) equipment schedules (CAM 12-802.5c); and, • Using the total cost or modified total cost method (CAM 12-704). d. Discuss the audit scope to address profit (Section K) and ascertain the contracting officer's understanding on whether the subject matter should include profit (i.e., subject to further adjustment during settlement/negotiations). If profit will not be included in the audit scope, document the conversation with the contracting officer and exclude the audit steps from the audit plan. e. If not provided with the request for audit, request the contracting officer provide a list of any significant contract events as required by FAR 43.204(b)(5). If one is not available, prepare a "Chronology of Significant Events." (OAG) f. Discuss the contractor's certification as an REA vs. a claim and request relevant facts such as earlier submissions or other related REAs/claims. g. Ascertain the reasons for any scope restrictions or limitations, if applicable. If restrictions or limitations substantially diminish the value of the audit, advise the requestor (and the Government trial	

attorney, if any) and propose mitigating actions (e.g., additional procedures, time extension, etc.).	
2. Review the REA or claim and supporting schedules using OAG Claim Audit – Screening Checklist for Other Claims or Proposals to determine if it is adequate to be audited.	
3. Perform mathematical verification of the REA or claim and supporting data.	
4. Notify the appropriate contracting officer of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.	
5. If the submission is a claim and has been filed in a Board of Contract Appeals or the Court of Federal Claims, notify the regional or CAD Technical Specialist and the assigned DCAA Legal (DL) attorney. (Note: If the appeal has been assigned to a Government trial attorney, do not accept audit requests regarding the claim without first discussing the matter with DL.) Occasionally when an appeal has been filed, the contractor attorneys will insist all requests for documentation be made through them or through the formal discovery process. This could significantly slow down the flow of information and should be considered in the planning process. The DL attorney will assist the audit team should this occur.	
6. If auditing a subcontract: a. Coordinate with the DCAA cognizant office over the higher-tier contractor to ensure that the Government will derive a benefit from the audit, and the audit would not result in a duplication of effort. Specifically, request information regarding the status and conclusions of effort already performed at the higher-tier contractor by the cognizant DCAA office or higher-tier contractor. b. Advise the subcontractor that the audit report may be made available to the prime contractor or higher-tier contractors. Determine at the start of the audit whether the subcontractor will have any restrictions or reservations on the release of the audit report to higher-tier contractors. Obtain the subcontractor's written consent for release of the audit report or reason(s) for not authorizing release. If there are restrictions to the release of data, promptly notify the higher-tier contract auditor or appropriate contracting authority to determine whether the audit should be performed. The contracting officer, working with the higher-tier contractor, may be able to remove the subcontractor's restrictions or reservations. Follow the reporting guidance in CAM 10-210.4 if the audit is completed at the request of	

the contracting officer despite the subcontractor's restrictions or reservations.	
7. Conduct an entrance conference with the contractor and obtain a walk-through of the REA or claim to gain an understanding of the basis of each cost element, the related supporting documentation, and relevant policies/procedures and processes related to significant cost elements. Invite the contracting officer. a. Make inquiries to fully understand the contractor's position regarding the nature of the REA or claim and the extent of asserted Government responsibility. b. Make inquiries to fully understand the methodology used to develop the price adjustment. Determine if different methodologies were used for different cost elements, or whether the contractor used methodologies that differ from its normal estimating and accounting procedures. (1) If the contractor used the total cost method or modified total cost method for one or more of the REA or claim elements, plan audit procedures (WP J-1) to review the Total Cost or Modified Total Cost Method. (CAM 12-704) (2) Determine if costs incurred related to the asserted changed condition were segregated in the contractor's records. If the contractor's accounting system does not identify and segregate costs by project and contract, has the contractor summarized the incurred costs from pertinent source documents to fully disclose the actual costs applicable to the contract and the REA or claim? (3) Determine the extent that incurred costs related to the asserted changed condition were used in the pricing of the adjustment. (4) Determine the extent that estimates were used in the pricing of the adjustment. If estimates were used, to what extent were they based on incurred costs? c. Determine if the REA or claim includes costs covered by a termination proposal (CAM 12-103.b). d. Obtain relevant supporting data, such as budgets and actuals for indirect costs (including allocation bases and fixed and variable costs); direct costs, including labor hours and costs, material costs, and subcontracts; audited financial statements, tax returns, and union agreements for the entire performance period of the contract; and documentation of any employee lay-offs asserted to be due to the asserted changed condition. • Prepare a comparative analysis of the financial data (budgets vs. actuals) to assist in evaluating the reasonableness of an assertion that increased costs have been incurred.	

• Review data related to the contractor's assertions. e. If external legal or financial consultants prepared the REA or claim, obtain a copy of their supporting working papers if required to demonstrate the basis of the submitted cost elements. If the contractor asserts the attorney-client privilege, refer to CAM 1-504.4.g and consult with DCAA-DL for assistance as needed. f. When REAs or claims relate to multiple contract issues, contractors may summarize costs by contract issue instead of by cost element. In these cases, perform procedures to determine if costs are overstated or duplicated. Compare total costs proposed or claimed for each significant cost element to the job cost ledger and/or bid/budget for the cost element. Request the contractor's explanation for significant differences.	
8. 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.	B-05
9. If the REA or claim includes significant subcontract costs, request assist audits, as necessary.	
10. Review the contracting officer's contract files for pertinent documents, such as relevant change orders, detailed field reports, and job process reports. a. Review prior and current contract price adjustments for duplication of cost in the subject price adjustment. b. Review contract modifications for release/waiver clauses related to the specific change order or previously compensated change order proposals. Determine if the contracting officer issued a supplemental agreement whereby the contractor released the Government from liability under the contract for further equitable adjustments relating to the same facts and circumstances giving rise to the modification. Whether or not prior contract modifications relating to the same facts and circumstances contain a contractor's waiver, question costs in the current proposal/claim that duplicate costs reimbursed under prior contract modifications. (See FAR 43.204 and CAM 12-604.) Note that some contract modifications may provide the contractor with nonmonetary compensation, such as additional time/days or an extended performance. Consider if the contractor has proposed or claimed costs related to time that has already been compensated.	
11. Using the contractor-prepared contract brief, if available, and the contract and modifications, identify the period of performance, total contract amount, and all pertinent FAR clauses or provisions. Validate the	

accuracy of the contractor-prepared brief before placing reliance. If no reliable contractor-prepared brief is available, brief the contract using Claim Audit-Contract Brief, WP 31. a. Determine if the contract contains the Pricing Adjustments clause (DFARS 252.243-7001 or similar supplemental regulation) that requires costs to comply with FAR Part 31. b. Determine if the contract is CAS-covered. REAs or claims commonly arise under fixed-price contracts and frequently under sealed-bid contracts or contracts otherwise exempt from CAS or FAR Part 31. c. For manufacturing/supply contracts, determine if the contract includes First Article Testing provisions (FAR 52.209-4(c) and FAR 52.209-3(c)) that limit the costs for retests to be borne by the contractor. If so, request related information from the contracting officer. If unrelated to the current proposal or claim, any costs that exceed the contract limits may be disallowed. d. Determine if the contract and subsequent modifications contain a formula or basis for computing the price adjustment. If yes, verify the contractor used this formula to develop the price adjustment.	
12. If an audit of the initial pricing proposal was performed, review the proposal and the audit report for any information that may impact the subject REA or claim.	
13. Review the permanent file to determine if previous audits included findings and recommendations related to the subject matter under audit. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures: a. Ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions. (GAGAS 7.13) b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit.	
14. Review the contractor's correspondence and contract files for relevant documents. Obtain a list of all outstanding and recently settled REAs/claims adjustments on other contracts that relate to the period of performance of the subject contract.	
15. Review the 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 and perform the procedures below. a. Ask contractor management if internal audits were performed. If yes, request a summary listing of the internal audits to assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit. b. If the review of the perm file or the contractor identifies relevant internal audits: • Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment. • Document the results of the determination in writing. • If assignment is at a major contractor location, coordinate with the FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports. • If assignment is at a non-major contractor and the FAO does not have a designated POC, request the contractor provide access to the internal audit reports. • The request, issued by the 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. c. If the review of the perm file or the contractor identifies relevant other audits or studies: • Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.). • Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings. d. Document the results of the inquiries including the response received from the contractor for any request for access to internal audit reports. (If access was not granted this should include the contractor's rationale or justification for not granting access). e. Determine if additional audit procedures are needed to respond to identified risk.	
16. Review the contractor's Disclosure Statement (if applicable) in effect during the period applicable to the proposed or claimed costs and the results of prior reviews. Tailor the audit program to address any audit	

leads and to determine if accounting for significant cost elements in the REA or claim is consistent with established/disclosed practices and complies with FAR Part 31 and the Cost Accounting Standards if applicable.	
17. 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.	
18. Fraud Risk Indicators Using the framework in WP B-09, discuss the fraud risk indicators with the audit team.	B-09
19. Review and discuss with your supervisor the overall results of the risk assessment and the planned audit scope, including the detailed audit steps. Tailor the audit program steps as needed to obtain sufficient, appropriate evidence to provide a reasonable basis for the conclusion expressed in the audit report. Finalize the milestone plan.	
20. Obtain and document supervisory approval of the risk assessment, the planned scope of examination for each audit area documented in WP B and the -01 WPs.	
21. Send a final acknowledgement memorandum to the contracting officer and a notification letter to the contractor to formally notify them of the audit and expected completion date in accordance with CAM 4-104.b and CAM 4-302.3.	

C-1	**Labor Costs**	**WP Reference**
Version 8.3, dated Jan 2026		
1. Reconcile the costs that have previously been audited to the contractor's books and audited costs.		
2. Perform procedures to determine the cause, reasonableness, allowability and allocability of proposed or claimed labor costs. Determine if the contractor has demonstrated a logical causal connection to Government-directed-out-of-scope work or other Government actions or inactions. Consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work. a. Compare the bid or negotiated labor costs to actual cost data, exclusive of that related to the asserted changed conditions to determine a possible loss on the contract. Verify the actual cost data to the contractor's accounting books and records, i.e., job cost reports, labor distribution reports, payroll reports, timesheets, and payment. See audit program WP I-1 regarding construction contract labor. Specialist assistance may be required to evaluate any significant differences in labor hours. Proposed or claimed labor costs that were not included in		

the bid may indicate intentional underbidding (FAR 3.501, Buying-in). Question costs unrelated to the asserted change, those underestimated in the bid, or those omitted costs, e.g., labor categories, functions, or tasks that should have been in the original bid. b. Identify rate variances between the estimated and the actual hourly rate for the skill levels proposed. Determine if an increase in rate arose from escalation due to time-shifting of performance due to Government action or inaction. The contractor is responsible if it under-estimated the average labor rate for the time period of performance. c. Identify substitute or mix variances (the costs of using a skill level or labor mix different from the one originally estimated is ordinarily under the contractor's control regardless of the Government's action or inaction). (1) Determine if average rate per hour fluctuations indicate a possible substitution variance. (2) Obtain information on skills proposed versus skills used to evaluate whether the variance represents a rate variance or a substitution variance. (3) If the asserted changed conditions require a different labor mix, assess the need for specialist assistance. For example, defective specifications could require more experienced or skilled labor. (4) If indicated by the risk assessment, test the reasonableness of labor rates or compensation in accordance with FAR 31.205-6. d. Identify efficiency or hours variances (additional hours due to loss of efficiency). (1) Determine the cause of the increased hours. Question increased hours due to contractor inefficiencies or poor management. (2) If an improvement curve is used to support a proposed or claimed loss of efficiency or learning, determine if the supporting past performance, industry standards, or other basis are appropriate in the circumstances. Request specialist assistance as necessary. e. Consider other causes of variances such as increased hours (regular/overtime) due to changes in make-or-buy decisions, production methods, and/or labor mix subsequent to the award of the contract. If such changes are not related to the asserted changed condition, determine if the contractor properly accounted for such changes in the proposed or claimed increased hours.	
3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
4. Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.	

D-1	Material Costs	WP Reference
Version 8.3, dated Jan 2026		
1. Reconcile the costs that have previously been audited to the contractor's books and audited costs.		
2. Perform procedures to determine the cause, reasonableness, allowability and allocability of proposed or claimed material costs. Determine if the contractor has demonstrated a logical causal connection to Government-directed-out-of-scope work or other Government actions or inactions. Consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work. a. Compare the bid or negotiated material costs to actual cost data, exclusive of that related to the asserted change to determine a possible loss on the contract. Verify the actual cost data to the contractor's accounting books and records, i.e., job cost reports, purchase orders, quotes, invoices, and payment. Specialist assistance may be required to evaluate any significant differences between bid and acquired material quantities. Proposed or claimed material costs that were not included in the bid may indicate intentional underbidding (FAR 3.501, Buying-in). Question costs unrelated to the asserted change or those underestimated in the bid. b. Identify price variances between the estimated and the actual unit price of material items. Trace material costs to purchase invoices. Determine if any advance agreements protect the contractor from cost growth; if so, verify proposed prices are consistent with the agreements. Determine if the contractor obtained competitive quotes or performed analysis of bids. c. Identify quantity variances between the estimated and the actual quantities of material items. Review contractor records to determine the cause of the variance such as spoilage, obsolescence, theft, inadequacy of initial estimate or other causes that may or may not be the result of Government actions or inactions. Specialist assistance may be required. d. Determine if credits were applied for the sale of scrap material rendered useless by Government-directed design changes.		
3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.		
4. Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.		

E-1	Subcontracts	WP Reference
Version 8.3, dated Jan 2026		
1. Reconcile the costs that have previously been audited to the contractor's books and audited costs.		
2. Follow up with cognizant FAOs for subcontractors identified in WP section B, to assure timely receipt of assist reports for incorporation in the audit report. If there will be a delay in the receipt of the assist audit report, coordinate with the contracting officer to determine if the results can be forwarded directly to the contracting officer after issuance of the prime report.		
3. Forward any pertinent data such as lien releases and correspondence to the subcontract auditor.		
4. Review the prime contractor's correspondence for legal documents related to subcontractors. A review of the files may disclose that the prime contractor is holding the subcontractor liable for increased costs as a result of asserted changed conditions caused by the subcontractor, or that the subcontractor waived its rights at some point. If the contractor asserts the attorney-client privilege, refer to CAM 1-504.4.g and consult with DCAA-DL for assistance as needed.		
5. Brief the contract between the prime and the subcontractor. Determine if an exculpatory clause limits the prime contractor's liability to the subcontract price and if the prime contractor's right to recover damages is limited. A deviations and substitutions clause may limit the liability of the prime for any substitutions or deviations not approved by the Government.		
6. For construction contracts, determine if any of the original subcontractors defaulted and whether the prime received or will receive payments from the defaulting subcontractor's bonding company (surety). If so, determine if the prime contractor has properly credited the proposed or claimed costs.		
7. Compare the bid or negotiated subcontract costs to actual cost data, exclusive of that related to the asserted change to determine a possible loss on the contract. Verify the actual cost data to the contractor's accounting books and records, i.e., job cost reports, billings/invoices, and payment. Specialist assistance may be required to evaluate any significant differences in the subcontract scope of work. Proposed or claimed subcontract costs that were not included in the bid may indicate intentional underbidding (FAR 3.501, Buying-in). Question costs unrelated to the asserted change or those underestimated in the bid.		
8. Verify that the prime contractor has paid the subcontractor. If the prime is withholding payment to the subcontractor pending resolution of its own proposal or claim with the Government, include this information in the audit report note.		

9. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
10. Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.	

F-1	**Other Direct Costs**	**WP Reference**
Version 8.3, dated Jan 2026		
1. Reconcile the costs that have previously been audited to the contractor's books and audited costs.		
2. Perform procedures to determine the cause, reasonableness, allowability, and allocability of proposed or claimed other direct costs, e.g. travel costs, equipment charges/rental (see section I, Construction Contracts), etc. Determine if the contractor has demonstrated a logical causal connection to the asserted change/Government-directed-out-of-scope work or other Government actions or inactions. Also, consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.		
3. Compare the bid or negotiated other direct costs to actual cost data, exclusive of that related to the asserted change, to determine a possible loss on the contract. Verify the actual cost data to the contractor's accounting books and records, i.e., job cost reports, quotes, invoices, and payment. Determine if the contractor obtained any competitive quotes or performed any analysis of the vendors' bids. Proposed or claimed costs for items that were not included in the bid may indicate intentional underbidding (FAR 3.501, Buying-in). Question costs unrelated to the asserted change or those underestimated/omitted from the bid.		
4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.		
5. Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.		

G-1	**Indirect Costs**	**WP Reference**
Version 8.3, dated Jan 2026		
1. If the costs/rates for the year(s) involved in the REA or claim have previously been audited, reconcile the costs with the contractor's books and audited costs.		
2. Perform procedures to determine the cause, reasonableness, allowability and allocability of proposed or claimed indirect costs. Determine if the contractor can demonstrate a logical causal connection to Government-directed-out-of-scope work or other Government actions or inactions. Consider offsets to		

cost increases whereby certain costs were not incurred because work was replaced with different work. a. Determine if indirect expenses are allowable and comply with the contractor's disclosed/established cost accounting practices. Verify the indirect costs to the contractor's accounting books and records, i.e., general ledger, invoices, and payment. b. Determine if the contractor's indirect expense rates were properly calculated and applied. c. Determine if the contractor identified and excluded unallowable indirect expenses from the indirect expense pools. d. Determine if the contractor demonstrated the causal/beneficial relationship between indirect expenses and the allocation base.	
3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
4. Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.	

H-1	**REA or Claim Preparation Costs**	**WP Reference**
Version 8.3, dated Jan 2026		
1. If the submission is a proposal, costs to prepare the REA are generally allowable if reasonable and allocable. a. Review the supporting documentation and tailor procedures to determine the reasonableness, allowability, and allocability of the proposed amount. b. If professional or consultant charges are proposed or claimed, determine if they are reasonable in relation to services rendered (FAR 31.205-33). Review consultant agreements, invoices and other documents sufficient to ascertain the nature and scope of the services provided. If the fee is contingent upon recovery from the Government, question the costs (FAR 31.205-33(b)). c. Ascertain the contractor's practices for charging REA preparation costs. The courts have ruled that allowable equitable adjustment proposal preparation costs are generally not reimbursable as a direct cost. However, such preparation costs may be a direct charge if consistent with the contractor's disclosed accounting practices.		
2. If the submission is a claim, preparation costs incurred after the submission of the claim to the contracting officer are unallowable even if incurred in support of negotiations or alternative disputes resolution (ADR) processes (see CAM 12-606.b). a. Review invoices and other documents sufficient to ascertain the nature and scope of the services provided. Review the supporting		

documentation to determine the reasonableness, allowability, and allocability of the proposed or claimed amount. b. Determine if proposed or claimed preparation and support costs are factually related to the submission of the REA or claim; such costs are unallowable per FAR 31.205-47(f).	
3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
4. Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.	

I-1	**Construction Contracts**	**WP Reference**
Version 8.3, dated Jan 2026		
1. Review the Government and contractor field reports, contractor's job site diary, and other correspondence between the Government and prime and subcontractors for evidence of potential non-Government caused reasons for increased costs, extent of work performed, status of employees and subcontractors/vendors, and types and dates of equipment usage. This may disclose evidence of potential non-Government caused reasons for increased costs such as: • Subcontractor performance issues; • Problems with material purchases; • Required re-work or remedial work; and • Internal problems. Discuss data found in the records with those employees responsible for the records. Compare the data with that provided in the REA or claim and determine the basis for any discrepancies.		
2. Construction Labor - If applicable, review the contractor's Davis-Bacon Act certified payroll record reports submitted weekly to the Government for the period under review. These reports are usually submitted on Dept. of Labor Form WH-347 (see FAR 53.303-347). a. Determine if the employees working on the job prior to the asserted changed condition continued to work on the job. b. Verify employees' pay rates to the contractor's payroll records, paid checks, and submitted costs.		
3. Construction Equipment - If the REA or claim includes costs of construction equipment, review the submitted costs for compliance with the allowability requirements set forth in FAR 31.105(d)(2).		

a. Determined the contractor's basis for proposed or claimed equipment costs, actual equipment costs or predetermined rates. b. Actual cost data: (1) Trace proposed or claimed actual equipment costs to the contractor's books and records. (2) Determine if cost data is available for each piece of equipment proposed or claimed or groups of a similar series or serial equipment (FAR 31.105(d)(2)(i)(A)). If the data is available, the FAR requires that the actual data should be used and not predetermined rates. (3) Analyze the accounting assumptions used in the computation of actual equipment costs, such as equipment life, year entered into service, and salvage values. Request technical assistance if needed. Reconcile this data to other job records and company-wide financial accounting data. (4) Determine if the equipment costs are proposed or claimed in accordance with the contractor's normal capitalization policies. Items not customarily capitalized (i.e., normally expensed), such as the costs of wheelbarrows or small tools, should be omitted from equipment calculations. c. Predetermined rates: (1) Determine if the contractor met the FAR criteria permitting the use of the schedules (see step 3.b.(2)). Determine if the contractor's accounting system is capable of identifying the equipment costs based on the FAR criteria. If actual data can be obtained, the rate schedules should not be used. (2) Determine if the contract specified predetermined rate schedules to compute equipment costs. If a schedule is not mandated, request specialist assistance on the choice of an appropriate rate schedule. If the contractor used a schedule other than the one mandated in the contract, evaluate the reason for the deviation. (3) Verify the contractor used the predetermined rate schedule for the rates used to compute the equipment costs. (4) Review other proposed or claimed direct and indirect costs to determine if the costs of equipment proposed or claimed are included. Question any duplicative equipment costs. (5) Review supporting records for any evidence that the proposed or claimed equipment was used for other work during the asserted standby period. If so, question the proposed or claimed costs as unallocable to the subject contract.	
4. Job Site/Field/Extended Overhead – General Conditions:	

a. Verify the mathematical accuracy of supporting schedules, and ensure supporting data identifies the link between the asserted Government action or inaction and the increased costs proposed or claimed.

b. Determine whether the contractor's allocation method is consistent with its established accounting practice and applied for all contracts. Costs may be directly identified or indirectly charged based on a markup percentage or daily rate (dividing total job site overhead cost on the project by the total days of contract performance and then multiplying the result by the number of days of compensable delay); however, FAR 31.203 prohibits a contractor from using more than one allocation method for recovery of job site overhead. (CAM 12-802.4.b.)

c. Review negotiated change orders/contract modifications to ensure that:

- The contractor has not already been compensated for field overhead related to any extended performance (which makes costs in this claim/REA duplicative);
- An adjustment was made for any applicable change orders containing a release or an accord and satisfaction clause precluding additional recovery of job site overhead.

d. Compare proposed or claimed job site overhead to original bid documentation:

- Determine whether job site overhead may have been underbid. Recouping these costs in the REA or claim is unreasonable.
- Obtain and evaluate the contractor's justification for proposed or claimed costs not included in the original bid, and assess whether the increased costs are related to the contractor's assertions regarding the changed condition or Government action or inaction. (CAM 12.705)

e. Review the contractor's calculations to verify the removal of non-time related costs such as:

- Mobilization and demobilization costs;
- Costs to install electrical, telephone, water gas, safety fencing on the site at the beginning of the project;
- Office furniture, copiers, scanners, fax machines and computer costs (if purchased for the project, not leased or capitalized). Non-time related costs do not change when the project is extended and should not be included in the damage calculation.

f. Review the cost patterns for items in the job site overhead pool that may have been variable up to a certain point in time; but ceased to be incurred after that point in time. If such costs are not being incurred during the extended period, they should be omitted from the damage calculation.

g. Review cost records for company-owned equipment included in the job site overhead pool. Determine if the assets had been fully depreciated prior to the construction project. Compare the monthly booked costs to the amounts proposed or claimed. If the contractor is not using actual costs as required by FAR 31.105(d)(2)(i)(A), determine whether the contracting agency had specified the use of a particular schedule of predetermined rates or any part thereof to determine ownership and operating costs of construction equipment. h. Evaluate the proposed or claimed job site overhead costs and verify that costs associated with the overall operation of the business (home office overhead/general and administrative expenses) are excluded. i. Evaluate the proposed or claimed job site overhead costs and verify that amounts are not duplicated as a direct cost (e.g., equipment, tools, etc.). j. If using a daily rate, compute the daily rate proposed or claimed for each individual cost element in the job site overhead and apply the rate to the entire period of performance. Identify items in the job site overhead where the application of the daily rate to the entire period of performance yields a dollar value in excess of costs incurred, and evaluate the contractor's justification for significant differences. k. If applicable, verify the allocation base to contractor's supporting records.	
5. Bonding Costs/Premium: a. Brief the contract for the bonding requirements clause (FAR 52.228-15). b. Verify the computation of bonding costs/premium. Bond costs/premium are based on the total value (costs plus profit) of the contract including modifications. Determine if the contractor's computation is based on the correct rate for the appropriate level of contract revenues since bond rates may be based on a sliding scale. Since a bond rate is applied to a value that includes profit, refer to audit program WP K-1 to determine the effect that questioned submitted REA or claim costs may have on profit. c. Determine the total bonding costs/premium included in the original contract price, modifications and subject REA or claim. Compare this amount with incurred costs or future liability. Question the difference.	
6. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
7. Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.	

J-1	Total Cost Or Modified Total Cost Method	WP Reference
Version 8.3, dated Jan 2026		
If the contractor computed any element(s) of the REA or claim using the total cost or modified total cost method, perform the following steps to determine if the contractor meets the criteria for acceptable use of the method. These steps should be performed in addition to any of the previous steps (in WP sections C-01 through I-01) that apply.		
1. Impossible to determine actual related increased costs. a. Review the contractor's accounting system and Disclosure Statement, if applicable, to determine the capability and requirements to separately account for increased costs caused by the asserted change(s). b. Determine if the contract included the Change Order Accounting Clause (FAR 52.243-6). Determine if the contracting officer issued any directives requiring the contractor to establish separate cost accounts for activities related to changed work and if the contractor complied with the directive.		
2. Bid is realistic. a. Compare the bid with the RFP requirements. Determine if any significant elements were omitted from the bid but included in the submitted costs. b. Compare the contractor's bid with unsuccessful contractors' bids for the same acquisition, if available from the CO. c. Compare the proposed/bid price to recent historical data of similar work. If the bid is significantly less, determine why. d. Compare the contractor's bid delivery schedule with those of unsuccessful bidders. Determine the reasons for significant differences. e. Compare bid cost elements to incurred cost elements, by task if possible. Examine those elements where the bid cost is significantly different from the incurred costs. Determine the reason for the difference. f. Review prior audit reports on the contractor's estimating system for deficiencies that may have impacted the reasonableness of the bid.		

3. Incurred costs were reasonable. a. Reconcile the incurred costs to the contractor's books and records. Determine if the incurred costs were allocable, allowable and reasonable and comply with contract provisions. Question those costs proposed or claimed that were not incurred or would not be incurred. b. Obtain specialist assistance, if necessary, to determine the cost realism of the estimate-to-complete if the contract is not yet complete. c. If the contractor used estimates based on incurred costs, determine if add-on factors applied to incurred costs or estimated costs are logical and reasonable in the circumstances. d. Evaluate changes in methodologies used for the bid as compared to the incurred costs. Determine if the contractor changed the labor mix or revised the make-or buy decisions. Determine the impact on submitted increased costs.	
4. Government is clearly responsible. a. Review the contract budgets for the period of performance and the contractor's policies and procedures for comparing actual performance to the budget. Identify and analyze variances the contractor should have identified as work was accomplished. Gather information on contractor caused increased costs and increased costs due to asserted changed work. b. Determine if the contractor implemented any accounting changes having impacts that were not considered in the REA or claim. c. Determine if the contractor recognized any increased costs attributable to its own mismanagement in scheduling or material procurement. d. Review correspondence between the prime contractor and the subcontractor(s) for indications of subcontractor failure to perform according to schedule or other issues that would cause increased subcontract costs or prime contract costs. e. Determine if there were extraordinary equipment repairs or delayed material ordering or deliveries that were charged to the contract and not the responsibility of the Government. f. Review increased incurred overhead costs that may have been caused by loss of planned contract awards, contractor-caused delays, or contract terminations that are not the responsibility of the Government. g. Determine if there were higher than normal material scrap costs that may indicate contractor caused cost growth. h. Determine if the prime contractor proposed or claimed hours that were actually performed by a subcontractor. Determine if the subcontract was a firm fixed price and if there was a change to a cost reimbursement contract. If there was no change, there is no liability to the Government.	

5. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
6. Based on the results of performing the previous steps, determine if proposed or claimed costs meet the four criteria for applying the total cost or modified total cost method. Summarize the results.	
7. If the modified total cost method was used, also determine if the adjusted costs were accurate and complete. Summarize the results.	

K-1	**Profit**	**WP Reference**
Version 8.3, dated Jan 2026		
1. Evaluate the contractor' support for the proposed or claimed profit, including identification of the contract clause under which the asserted change/dispute proposal or claim is made. Profit is not specifically excluded for requests submitted under FAR 52.242-15, FAR 52.243, or FAR 52.236-2. However, because profit is specifically excluded under the provisions of FAR 52.242-14 and -17, verify that no elements of the submission relate to a suspension of work or Government delay, respectively. Question profit amounts specifically excluded per FAR.		
2. Lost profit is an estimate of the profit that the contractor would have realized on the contract "but for" the Government's action or inaction. If the submission includes "lost profit," evaluate supporting records for evidence that the proposed or claimed amount is attributed to the asserted change/dispute. If the contractor cannot demonstrate the contract would have earned a profit "but for" the Government's action or inaction, "lost profit" should be questioned.		
3. Include a comment in the explanatory note acknowledging the contracting officer's authority to further adjust the proposed or claimed rate. Because the overall amount of profit or fee determination is solely within the contracting officer's discretion, the audit team should not attempt to apply the weighted guidelines or any terms of the contract that specify the considerations for awarding profit or fee. However, the explanatory note may include information such as the following to assist the contract officer during negotiations: a. Rate of profit contemplated at time contract was negotiated. b. Average rate of profit on similar products or similar lines. c. Other observations related to fee or profit that arise during the audit.		
4. Verify the mathematical accuracy of the contractor's computations.		
5. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.		
6. Summarize the results including the conclusions, basis of contractor's		

profit, and audit evaluation.	

A-1 Concluding Steps	**WP Reference**
Version 8.3, dated Jan 2026	
1. Summarize and document the audit results.	
2. Discuss audit findings with supervisor and regional/CAD claims Technical Specialist (if available). Coordinate with DL as needed.	
3. After management approval, communicate the audit results with the requestor/contracting officer: a. Provide conclusions on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues. b. Determine if inclusion of detailed explanatory notes in our report would serve a useful purpose if there are no findings. c. If there is a reason to believe that the audit has been requested in support of a litigation, ask the requestor to state whether the audit will be covered by the attorney work product privilege (see CAM 15-503 and 4-304.7). If so, explain the importance of the exit conference in resolving audit issues and avoiding errors, and attempt to obtain permission to hold an exit conference.	
4. Unless prohibited by attorney work product privilege, conduct an exit conference with contractor representatives in accordance with procedures specified in CAM 4-304. Invite the requestor/contracting officer to attend. Discuss all audit conclusions based on incurred costs. For audit conclusions based on estimates of future work, discuss only factual differences. (For claims appealed to the Boards of Contract Appeals, U. S. Court of Federal Claims, or U. S. Court of Appeals for the Federal Circuit, coordinate with the Government trial attorney prior to conducting an exit conference.)	
5. Complete the administrative working papers.	
6. Update permanent file as appropriate.	
7. Update the draft audit report to incorporate the exit conference, contractor's reaction, and auditor's response, if applicable. Submit the working papers and draft audit report to the supervisor/manager for final review and processing.	