

Master Document – Audit Program

Activity Code 24010	Estimating System - Compliance with DFARS 252.215-7002 by Criteria
Version 1.1, dated Jun 2025	
B-01 Planning Considerations	
Type of Service - Attestation Examination Engagement	
Audit Specific Independence Determination	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this working paper. For example, an FAO may add additional auditors (e.g., technical specialists) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p>	
Purpose and Scope	
<p>1. The objective of this audit is to examine the contractor's compliance with the DFARS estimating system criteria, described in DFARS 252.215-7002, Cost Estimating System Requirements. As a part of that objective, auditors will:</p> <ul style="list-style-type: none">• Obtain and document an understanding of relevant portions of the estimating system internal control over compliance sufficient to plan the audit and to assess control risk for compliance with the system criteria in DFARS 252.215-7002;• Perform testing across all DFARS criteria, with the extent of testing based on the associated risk of each DFARS criteria;• Determine if the contractor is compliant with the estimating system criteria described in DFARS 252.215-7002; and• Report both material weaknesses and system deficiencies identified during the audit related to the contractor's compliance with the system criteria in DFARS 252.215-7002.	
<p>2. If the entity is a Non-profit, Federally Funded Research and Development Center (FFRDC) (excluding those operated by Educational Institutions), or State and Local Government, the auditor should modify the program to include specific procedures in accordance with the applicable OMB Circulars and 2 CFR 200.</p>	
<p>3. This program is designed to use a teaming approach that includes discussions among the audit team members regarding, for example, potential kinds of fraud and other noncompliances, and the major aspects of the audit (e.g., major estimating areas, understanding of the system, etc.). These discussions should generally include auditors</p>	

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<p>from the offsite locations. Due to the complexities of this audit, significant upfront coordination with the contractor is required. Therefore, the program also includes a planning meeting with contractor personnel prior to the formal entrance conference to notify the contractor of the upcoming audit, request a list of price proposals, and to inquire about the locations of the various estimating functions to determine if coordination with other DCAA offices is necessary. During the planning meeting, the audit team should schedule the entrance conference and request that the contractor provide a general overview of the system at the entrance conference. Another important aspect of this audit is that the contractor provides detailed walkthroughs and demonstrations of its system.</p>	
4.	Timely communication of material weaknesses in compliance with the DFARS criteria to those charged with governance (the contractor and contracting officer) is essential to correcting internal control deficiencies. After discussion with your supervisor, it may be determined that a system deficiency report should be issued on a real-time basis, prior to completion of the audit. In those cases, a separate assignment should be set up using the System Deficiency Report activity code 11090. Establishment of this assignment should not occur until there is sufficient evidence that a material weakness exists and the audit team has fully developed the elements of a finding for the deficiency (see CAM Chapter 10). Whether to issue a deficiency report during the audit is a matter of professional judgment, depending on the specific circumstances.
5.	Generally, performance of this audit should occur every four years or more often if risk warrants.
6.	Audit teams may choose to use sample or judgmental selections when planning items to test for DFARS compliance. In instances where the audit team chooses to use judgmental selections, the team must ensure with this method that representative testing is performed and adequately documented. Whichever method is used, the audit team must determine whether the contractor's controls, processes, and procedures are in compliance with the DFARS criteria.
7.	Contractors that do not have DoD contracts (i.e., contractors that are 100 percent reimbursable) are not contractually required to comply with the DFARS criteria. Nevertheless, the DFARS criteria are suitable standards to use in determining the acceptability of any Government contractor's estimating system. If this audit program is used for contractors that have only non-DoD contracts, the language in the audit report shell will need to be tailored accordingly. FAOs needing assistance in tailoring the audit report should coordinate with the region and Headquarters PAC.
References	
<ul style="list-style-type: none">• DFARS 215.407-5-70, Disclosure, Maintenance, and Review Requirements (Estimating Systems)	
<ul style="list-style-type: none">• DFARS 252.215-7002, Cost Estimating System Requirements	

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<ul style="list-style-type: none"> • DFARS 215.408, Solicitation provisions and contract clauses
<ul style="list-style-type: none"> • CAM 5-106, Obtaining an Understanding of the Contractor Business Systems
<ul style="list-style-type: none"> • CAM 5-500, Audit of Compliance with DFARS 252.215-7002 Cost Estimating Requirements
<ul style="list-style-type: none"> • CAM 9-303, Contractor Estimating Methods and Procedures-Cost Estimates
<ul style="list-style-type: none"> • CAM 5-505, Business System Reporting

B-01 Preliminary Steps	WP References
Version 1.1, dated Jun 2025	
INITIAL PLANNING	
<p>1. Research and Planning</p> <p>The audit report will report on the contractor’s compliance with the system criteria <u>during a period of time</u>, consistent with the attestation reporting standards. The period covered should limit the elapse of time between the period in which the estimates were developed and the issuance of the report to the extent possible. For example, the audit team may decide to wait until it has obtained and documented the understanding of the system before finalizing the period covered by the audit. Accordingly, the team may adjust the timing of some of the planning steps below.</p>	
<p>a. Review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.</p>	
<p>2. Applicability</p> <p>Determine if the contractor is a business subject to estimating system disclosure, maintenance, and review requirements as defined in DFARS 252.215-7002(c), titled “Applicability”.</p>	
<p>3. Coordination with Contracting Officers</p> <p>a. Notify the ACO of the commencement of the audit and that the expected completion date will be provided in the formal acknowledgement letter once the risk assessment is complete.</p>	
<p>b. Ask the ACO if the contractor disclosed its estimating system in writing. Request a copy of the contractor’s estimating system disclosure.</p> <p><i>DFARS 252.215-7002(d)(1) requires the contractor to “disclose its estimating system to the Administrative Contracting Officer</i></p>	

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B-01 Preliminary Steps	WP References
<i>(ACO), in writing,” and DFARS 252.215-7002(d)(3)(ii) requires the contractor to “disclose significant changes to the cost estimating system to the ACO on a timely basis.”</i>	
c. Ask the ACO if they have any concerns related to the contractor’s estimating system and compliance with the DFARS criteria.	
d. Contact the ACOs and PCOs involved in major proposals during the past 12 months to discuss any concerns related to the contractor’s estimating system and compliance with the DFARS criteria. Invite the ACO to the contractor system demonstrations. Document the results of this coordination and consider it in planning the audit.	
<p>4. Draft the Contractor Notification Letter.</p> <p>The proforma Contractor Notification Letter contains a list of information needed to perform the audit and identifies the key areas of the estimating system addressed during system demonstrations.</p>	
<p>5. Initial Contractor Meeting</p> <p>Hold a planning meeting with the contractor to provide notification of the upcoming audit.</p> <ol style="list-style-type: none"> Inquire about the locations of the estimating departments to determine if coordination with other DCAA offices is necessary. Provide the Contractor Notification Letter and discuss the purpose of the audit and expectations; Discuss and schedule the entrance conference where the contractor will present a general overview of their system showing how it complies with the DFARS criteria; Discuss the information being requested from the contractor; Request a schedule of price proposals requiring cost or pricing data submitted to the government for the past 12 months (adjust the period, as necessary, depending on circumstances at the contractor). Request the contractor include the following information in their schedule of proposals: <ul style="list-style-type: none"> Customer Contract type Proposed amount for each major cost element 	

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<p>6. Review of Permanent Files</p> <p>a. Review permanent files for audit leads relevant to the subject matter under audit. Document the impact of the audit leads on the audit.</p>	
<p>b. Review prior audits to determine if there were findings and recommendations that impact the subject matter under audit.</p> <ul style="list-style-type: none"> At a minimum, review prior examinations of forward pricing price proposals, forward pricing rate proposals, Truth in Negotiation compliance, contractor business systems, and Cost Accounting Standards. Consider materiality/significance of prior findings, if findings are recurring/systematic or non-recurring/non-systematic, and if the findings have been resolved or remain ongoing. 	
<p>c. If there were findings that affect the subject matter, ask contractor management if corrective actions were taken to address the specific findings and recommendations identified.</p> <p>Request the contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.</p> <p>Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (GAGAS 7.13)</p>	
<p>7. Request the contractor provide internal audits or management reviews related to the contractor's estimating system. Review the contractor's internal audits or management reviews. Identify risks related to estimating system processes, types of estimates, or cost elements.</p> <p><i>DFARS 252.215-7002(d)(4)(xii) requires management review, including verification of compliance with the company's estimating and budgeting policies, procedures, and practices.</i></p> <p><i>DFARS 252.215-7002(d)(4)(xiii) requires the estimating system to provide for internal review of, and accountability for, the acceptability of the estimating system, including the budgetary data supporting indirect cost estimates and comparisons of projected results to actual results, and an analysis of any differences.</i></p>	
INITIAL TEAM DISCUSSION AND PLANNING MEETING	
<p>8. Fraud Risk Indicators</p>	B-09

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B-01 Preliminary Steps	WP References
Using the framework in WP B-09, discuss the fraud risk indicators with the audit team.	
ENTRANCE CONFERENCE AND SYSTEM DEMONSTRATIONS	
<p>9. Hold an entrance conference.</p> <ul style="list-style-type: none"> a. Obtain a general overview of the contractor's estimating system including its processes to ensure compliance with the DFARS criteria. b. Establish dates for demonstrations on the key processes to ensure compliance with the DFARS criteria. c. Discuss the level of detail that should be covered in the demonstrations, who should participate in the meetings, the length and location of the meetings, and other pertinent information; 	
<p>10. Management Inquiries</p> <p>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>11. Attend System Demonstrations</p> <p>During the demonstrations, make detailed notes of the contractor's system descriptions, policies, and procedures in order to adequately document your understanding of the contractor's estimating system and how it complies with the DFARS criteria.</p> <p>Ask questions to ensure a sufficient understanding of the estimating system is obtained. (See CAM 5-106).</p> <p><i>Note: When responsible personnel (and processes) differ across significant areas, the demonstrations may occur as a series of separate walkthroughs provided by responsible contractor personnel. The demonstration should address each of the 17 DFARS.</i></p> <p><u><i>Inquiry alone is not sufficient to obtain an understanding of the contractor's internal controls.</i></u></p>	

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<p>12. Determine if the contractor’s written estimating system disclosure is acceptable.</p> <p><i>DFARS 252.215-7002(d)(2) states an estimating system disclosure is acceptable when the Contractor has provided the ACO with documentation that—</i></p> <p><i>(i) Accurately describes those policies, procedures, and practices that the Contractor currently uses in preparing cost proposals; and</i></p> <p><i>(ii) Provides sufficient detail for the Government to reasonably make an informed judgment regarding the acceptability of the Contractor's estimating practices.</i></p>	
<p>13. Summarizing the Understanding of the Estimating System</p> <p>This step is important since the documented understanding serves as the basis for planning the audit and identifying types of potential noncompliances and factors that affect the risk of material noncompliances to enable designing audit procedures to test contractor compliance with DFARS 252.215-7002.</p>	
<p>a. Obtain and document an understanding of contractor internal controls relevant to the audit. Auditors may obtain a significant portion of this understanding during the walkthrough.</p>	
<p>b. Using the information obtained during the entrance conference and system demonstrations, as well as the information you obtained inspecting policies and procedures and performing the preliminary risk assessment steps, document your understanding of the contractor’s estimating system and cross reference it to detailed descriptions and information obtained and documented during the contractor’s demonstrations (e.g., flowcharts, policies and procedures, desk procedures, screenshots, etc.)</p>	
<p>c. Prepare a high-level summary of your understanding of the contractor’s estimating system. After the detailed summary understanding has been documented and reviewed by your supervisor, provide the summary to the contractor and obtain written confirmation from the contractor that the understanding is accurate.</p>	
<p>d. Summarize the high-risk areas identified during the demonstrations and other preliminary steps so that they can be addressed during the team discussion below.</p>	

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B-01 Preliminary Steps	WP References
SELECTION OF PROPOSALS AND BASIS OF ESTIMATE	
<p>14. Proposal Universe Validation</p> <p>Review the universe of price proposals provided by the contractor for the period under audit, verify completeness and accuracy of selected proposed values (e.g., compare to price proposals audited list, verify with ACO/PCO records, etc.).</p>	
<p>15. Select representative price proposals for testing during fieldwork.</p> <ol style="list-style-type: none"> Identify price proposals in the universe that are subject to the estimating system clause (i.e. solicitations that require certified cost and pricing data, include or reference FAR 52.215-20 <i>Requirements for Certified Cost or Pricing Data and Data Other Than Certified Cost or Pricing Data</i>). Determine the materiality of each proposed cost element including those based on cost estimating relationships or standards. For proposals that were audited by DCAA, for each cost element, summarize the approximate values for questioned and unsupported costs. Identify proposals that were determined to be inadequate (did not comply with requirements of FAR 15.408, Table 15-2) and briefly document the reasons. <p><i>Note: Include recently audited proposals that fall within the reporting timeframe, where we had findings that may be due to non-compliances with estimating system criteria.</i></p>	
<p>16. Select representative Basis of Estimates (BOEs) for testing during fieldwork.</p> <ol style="list-style-type: none"> Obtain a universe of the BOEs for each material cost elements from the selected proposals. Based on identified areas of risk, select BOEs for detailed testing. Ensure BOEs represent selected proposals and document the rationale behind the selection Obtain any additional detailed estimating files (not included in the proposal) supporting the contractor's estimates in selected BOEs to test the key processes and controls to determine if the contractor's estimating system complies with the system criteria in DFARS 252.215-7002. <p><i>Note: Include BOE(s) where we had prior audit findings that may be related to noncompliances with estimating system criteria in the selected</i></p>	

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<i>proposals that were audited and selected from the validated universe.</i>	
RISK ASSESSMENT SUMMARY AND DISCUSSION	
17. Assess and document the need for technical or other audit assistance.	
<p>18. Evidence Obtained During Risk Assessment</p> <ul style="list-style-type: none"> a. Based on the contractor’s estimating system disclosure, system walkthroughs and demonstrations, and additional evidence gathered during the risk assessment, determine if the contractor’s estimating system: <ul style="list-style-type: none"> i. Establishes clear responsibility for preparation, review, and approval of cost estimates and budgets. (DFARS 252.215-7002(d)(4)(i), and ii. Provide a written description of the organization and duties of the personnel responsible for preparing, reviewing, and approving cost estimates and budgets. (DFARS 252.215-7002(d)(4)(ii) b. If the audit team obtained sufficient, appropriate evidence during the risk assessment to conclude on the compliance with any other individual criterion, document the basis for the conclusions in the risk assessment working papers and on WP B-00. c. Determine and document the reliability of the information the audit team used to reach their conclusions on compliance with those specific criteria. 	
<p>19. Risk Assessment and Scope of Audit Discussion</p> <p>Hold an interim planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Technical Specialist and Auditors) and discuss results of preliminary planning, entrance conference information, risks identified, and the understanding of the system and areas of potential impact.</p> <ul style="list-style-type: none"> a. Discuss identified risks of noncompliance for each of the DFARS criteria. b. Discuss substantive audit procedures performed during the risk assessment. c. Discuss the audit scope for each audit area and planned substantive procedures. d. Make any further adjustments to the audit program steps necessary to obtain sufficient, appropriate audit evidence to provide a 	

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<p>reasonable basis for the opinion that will be expressed in the audit report.</p> <ul style="list-style-type: none"> e. Develop a milestone plan. f. Document supervisory approval of the risk assessment, and milestone plan. 	
20. Electronically transmit an acknowledgement/notification letter to the appropriate Contracting Officer to formally notify them of the audit and expected completion date in accordance with CAM 4-104.	

C-01 DFARS Criteria for Estimating Techniques	WP References
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SOURCES OF DATA, IDENTIFICATION AND DOCUMENTATION	
<p>DFARS 252.215-7002(d)(4)(iv), states:</p> <p>“An acceptable estimating system shall accomplish the following function:</p> <p>...Identify and document the sources of data and the estimating methods and rationale used in developing cost estimates and budgets.”</p>	
1. For the previously audited proposals selected for testing, review the Bases of Estimates (BOEs) and determine if the BOEs did not adequately document the sources of data, estimating methods and rationale. Summarize identified noncompliances with DFARS 252.215-7002(d)(4)(iv).	
2. For all other BOEs, determine if the description in the selected BOEs identifies and documents the sources of data, and the estimating methods and rationale used in developing the cost estimates and budgets. Evaluate BOEs for:	
<p>a. Direct Labor Rates</p> <ul style="list-style-type: none"> • Include labor rate escalation. • Include make-up of labor categories. 	
<p>b. Direct Labor Hours</p> <ul style="list-style-type: none"> • Include the contractor’s proposed labor skill mix. 	
<p>c. Direct Material</p> <ul style="list-style-type: none"> • Include material kinds and quantities, as well as significant additive factors, such as scrap, rework or spoilage. 	
<p>d. Subcontract Cost</p> <ul style="list-style-type: none"> • Ensure the contractor provided adequate supporting documentation for “Commercial Item Determinations.” 	

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C-01 DFARS Criteria for Estimating Techniques	WP References
e. Interdivisional Work Order (IWO) <ul style="list-style-type: none"> Determine if the estimate identifies the performing entity and states if the IWO is based on cost or price. If the IWO is based on price, verify the estimate adequately documents the rationale in accordance with FAR 31.205-26(e). 	
f. Other Direct Cost	
g. Indirect Expenses <ul style="list-style-type: none"> Verify estimates show trends and budgetary data to provide a basis for evaluating the reasonableness of proposed rates in compliance with FAR 15.408 Table 15-2.II.C. 	
h. Cost of Money (COM) <ul style="list-style-type: none"> Verify estimates are presented in accordance with Form CASB CMF in compliance with CFR 9904.414-50(b) and (c). 	
i. Cost Estimating Relationships (CERs) and Parametric Estimating	
HISTORICAL EXPERIENCE	
DFARS 252.215-7002(d)(4)(ix), states: “An acceptable estimating system shall accomplish the following function: ...Provide for the use of historical experience, including historical vendor pricing data, where appropriate.”	
3. For the previously audited proposals selected for testing, determine if the BOEs did not use historical experience where appropriate and summarize any noncompliances with DFARS 252.215-7002(d)(4)(ix).	
4. For all other BOEs, verify estimators considered the use of historical experience, when appropriate and evaluate any significant departures from relevant history. Evaluate BOEs for:	
a. Direct Labor Rates	
b. Direct Labor Hours <ul style="list-style-type: none"> Consider the contractor’s search for relevant history 	
c. Direct Material <ul style="list-style-type: none"> Ensure the contractor considers historical vendor pricing and historical differences between proposed vendor pricing and negotiated amounts. Consider historical additive factors 	

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C-01 DFARS Criteria for Estimating Techniques	WP References
d. Subcontract Cost <ul style="list-style-type: none"> Ensure the contractor considers historical vendor pricing and historical differences between proposed vendor pricing and negotiated amounts. 	
e. IWO	
f. Other Direct Cost	
g. Indirect Expenses <ul style="list-style-type: none"> Verify the contractor appropriately used historical data to develop trends and budgetary data to estimate indirect rates. 	
h. COM <ul style="list-style-type: none"> Consider how estimates of net book value of assets are developed. 	
i. CERs and Parametric Estimating	
APPROPRIATE ANALYTICAL METHODS	
DFARS 252.215-7002(d)(4)(x), states: “An acceptable estimating system shall accomplish the following function: ...Require use of appropriate analytical methods.”	
5. For the previously audited proposals selected for testing, determine if appropriate analytical methods were not used to develop the estimate and summarize any noncompliances with DFARS 252.215-7002(d)(x).	
6. For all other selected BOEs. Verify that the estimators used appropriate analytical methods. Evaluate BOEs for:	
a. Direct Labor Rates <ul style="list-style-type: none"> Consider modifications and adjustments to historical data used in trend analysis (also known as normalization), such as adjustments for changes in average level of employee job experience, adjustments due to changes in locality, adjustments due to Board of Director approved incentive plans, and comparisons to prevailing wage indexes. 	
b. Direct Labor Hours <ul style="list-style-type: none"> Consider modifications and adjustments to historical data, such as normalization or identification and removal of non-reoccurring activity. Consider improvements for efficiencies. 	
c. Direct Material <ul style="list-style-type: none"> Consider the use of relevant analytical methods, such as quantity-price discount curves. 	

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<ul style="list-style-type: none"> • Include price analysis and where appropriate, cost analysis. 	
d. Subcontract Cost <ul style="list-style-type: none"> • Consider appropriateness of analytical methods used in cost and price analysis. 	
e. IWO <ul style="list-style-type: none"> • Consider appropriateness of analytical methods used to justify Make-or-Buy Decisions. 	
f. Other Direct Cost	
g. Indirect Expenses <ul style="list-style-type: none"> • Consider the contractor's sources and use of historical data in trend analysis. • Consider modifications and adjustments to historical data, such as normalization or identification and removal of non-reoccurring expenses. • Evaluate the contractor's rationale for significant modifications to or departures from relevant history. 	
h. COM	
i. CERs and Parametric Estimating <ul style="list-style-type: none"> • Consider use of allowances for product dissimilarities, such as changes in complexity, scale, design, and materials. • Evaluate how the contractor ensured relevance and reliability of cost estimating relationships, such as sound correlation or minimum allowable variation (R-squared) • Consider the contractor's frequency and method of evaluating CERs to ensure estimates are reasonably accurate for prospective contracts. 	
INTEGRATE DATA FROM OTHER SYSTEMS	
DFARS 252.215-7002(d)(4)(xi), states: "An acceptable estimating system shall accomplish the following function: ...Integrate data and information available from other management systems."	
7. For the previously audited proposals selected for testing, determine if the BOEs did not appropriately integrate data and information available from other management systems. Summarize identified noncompliances with DFARS 252.215-7002(d)(4)(iv).	
8. For all other selected BOEs, verify that the estimators appropriately integrated information from other management systems, such as	

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payroll systems, accounting systems, or other relevant information technology systems. Evaluate BOEs for:	
a. Direct Labor Rates	
b. Direct Labor Hours	
c. Direct Material, IWO and Subcontract Cost	
d. Other Direct Cost	
e. Indirect Expenses	
f. COM	
g. CERs and Parametric Estimating	
SUBCONTRACT REVIEW AND ANALYSIS	
DFARS 252.215-7002(d)(4)(xv), states: “An acceptable estimating system shall accomplish the following function: ...Provide procedures that ensure subcontract prices are reasonable based on a documented review and analysis provided with the prime proposal, when practicable.”	
9. Review selected BOEs for Subcontract Costs:	
a. For the previously audited proposals selected for testing, determine if the documented review and analysis completed to support reasonableness was inadequate.	
10. For all other selected BOEs, verify the following:	
a. Determine reasonable attempts were made to award the subcontract based on adequate price competition.	
b. Verify that the contractor timely identified the need for certified cost or pricing data for purchases exceeding the TINA threshold or not meeting an exemption at FAR 15.403.	
c. Determine if the contractor submitted subcontract price and cost analyses (when required) with the proposal. If price or cost analyses were not included in the proposal, identify the contractor’s pattern of accomplishment and the underlying reasons for not including the analyses with its proposals. Consider whether it would have been practicable to include them with the prime proposal.	
d. Ensure proposed estimates reflect any known or reasonably anticipated price reductions due to negotiations with the subcontractor.	

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C-01 DFARS Criteria for Estimating Techniques	WP References
e. Determine if the documented price and cost analyses are sufficient to reasonably ensure subcontract prices are reasonable in compliance with FAR 15.404-3, <i>Subcontract pricing considerations</i> .	
CONSISTENT APPLICATION	
DFARS 252.215-7002(d)(4)(vi), states: “An acceptable estimating system shall accomplish the following function: ...Provide for consistent application of estimating and budgeting techniques.”	
11. Review Selected BOEs. Determine if the policies and practices reasonably provide for consistent application of estimating and budgeting techniques. Determine if BOEs are consistent with the contractor’s established/disclosed practices (CAS 401/CAS 402/FAR 31.202 and 31.203(a)). Evaluate BOEs for:	
a. Direct Labor Rates	
b. Direct Labor Hours	
c. Direct Material	
d. Subcontract Cost	
e. IWO	
f. Other Direct Cost	
g. Indirect Expenses:	
h. COM	
i. CERs and Parametric Estimating	
SUMMARIZE THE RESULTS	
12. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
13. Determine the root cause for any non-compliances and if practicable, determine the impact.	
14. Summarize the results of audit. Draft Statement(s) of Conditions and Recommendations (SOCAR) and obtain supervisory approval. Using professional judgment, quantify the audit findings associated with the noncompliance when possible.	
15. Discuss the findings with the contracting officer.	

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16. Discuss the findings with the contractor and provide a draft SOCAR. Obtain the contractor's response.	

D-01 Preventive, Detective, and Corrective Controls	WP References
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SUFFICIENT TRAINING	
DFARS 252.215-7002(d)(4)(iii), states: "An acceptable estimating system shall accomplish the following function: ...Ensure that relevant personnel have sufficient training, experience, and guidance to perform estimating and budgeting tasks in accordance with the Contractor's established procedures."	
1. For the bases of estimates (BOEs) selected for examination, identify the individuals (preparer, reviewer, and approver) responsible for preparing and finalizing the basis of estimates. Verify that relevant personnel have sufficient training, experience, and guidance to develop estimates in accordance with the contractor's established procedures.	
ADEQUATE SUPERVISION	
DFARS 252.215-7002(d)(4)(v), states: "An acceptable estimating system shall accomplish the following function: ...Provide for adequate supervision throughout the estimating and budgeting process."	
2. For selected BOEs, determine if adequate supervision occurred throughout the development of the estimates and budgets.	
DETECTION AND TIMELY CORRECTION OF ERRORS	
DFARS 252.215-7002(d)(4)(vii), states: "An acceptable estimating system shall accomplish the following function: ...Provide for detection and timely correction of errors."	
3. Identify selected BOEs in previously audited proposals where we identified errors and summarize any noncompliances with DFARS 252.215-7002(d)(2)(vii).	
4. Determine if the contractor's estimating system provides for detection and timely correction of errors with respect to each type of estimate. If no errors were identified, determine whether errors would likely have been detected considering the extent of supervision and management review. Review BOEs for:	
a. Direct Labor Rates	

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b. Direct Labor Hours	
c. Direct Material	
d. Subcontract Costs	
e. Other Direct Cost	
f. Indirect Expenses	
g. Cost of Money (COM) <ul style="list-style-type: none"> Verify the contractor took steps to ensure key data on the CASB Cost of Money Form (CMF) were current and accurate, including the interest rate, net book values, and allocation bases 	
h. Cost Estimating Relationships (CERs) and Parametric Estimating	
PROTECTION AGAINST COST DUPLICATION AND OMISSIONS	
DFARS 252.215-7002(d)(4)(viii), states: “An acceptable estimating system shall accomplish the following function: ...Protect against cost duplication and omissions.”	
5. For the previously audited proposals selected for testing, determine if cost duplications or omissions were identified and summarize any noncompliances with DFARS 252.215-7002(d)(2)(viii).	
6. Determine if the contractor’s estimating system effectively protects against cost duplication and omissions.	
a. Direct Labor Rates	
b. Direct Labor Hours	
c. Direct Material <ul style="list-style-type: none"> Ensure the Bill of Material (BoM) includes only material that is required for contract performance and provides protection against omitted and duplicative material. Determine if the contractor considered existing inventory supplies. 	
d. Subcontractor Cost	
e. Interdivisional Work Order (IWO)	
f. Other Direct Cost	
g. Indirect Expenses <ul style="list-style-type: none"> Verify the contractor compared proposed indirect accounts and expenses to their budget to protect against errors and omissions. 	

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D-01 Preventive, Detective, and Corrective Controls	WP References
<ul style="list-style-type: none"> Consider the contractor's method for determining the completeness of the significant allocation bases. 	
h. COM <ul style="list-style-type: none"> Verify the contractor ensured CASB CMF amounts reconcile to budgetary amounts and general ledger recordings, as appropriate. 	
i. CERs and Parametric Estimating	
MANAGEMENT REVIEW	
DFARS 252.215-7002(d)(4)(xii), states: "An acceptable estimating system shall accomplish the following function: ...Require management review, including verification of compliance with the company's estimating and budgeting policies, procedures, and practices."	
7. Determine if the contractor's policies and procedures establish sufficient timeframes and guidelines requiring management review of controls to determine controls are operating as intended and that they are modified as appropriate. (Generally, reference your observations and inspection of policies, procedures, and practices during the walkthrough.)	
8. Determine if the scope of management reviews required by the contractor's estimating system adequately address compliance with the company's estimating and budgeting policies, procedures, and practices.	
9. Evaluate management reviews and other monitoring activities for the time period covered by the audit to determine if the contractor is performing reviews in accordance with the contractor's established time frames and guidelines.	
10. If management reviews identified noncompliance(s), evaluate any corrective actions and or recommendations prepared by the contractor.	
INTERNAL SYSTEM REVIEWS	
DFARS 252.215-7002(d)(4)(xiii), states: "An acceptable estimating system shall accomplish the following function: ...Provide for internal review of, and accountability for, the acceptability of the estimating system, including the budgetary data supporting indirect cost estimates and comparisons of projected results to actual results, and an analysis of any differences."	
11. Direct Costs: Evaluate the contractor's internal review/monitoring, comparing projected results to actuals. If significant variances are identified, ensure the contractor conducted an analysis of the	

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D-01 Preventive, Detective, and Corrective Controls	WP References
difference(s). Evaluate corrective actions or recommendations implemented by the contractor to improve accuracy of future estimates.	
12. Indirect Expenses: Evaluate the contractor's internal review/monitoring of the operating budget, including comparisons of projected results to actual results, and the analysis of any differences. Review internal monitoring documentation at a point in time prior to price proposal development and evaluate the rationale and conclusions. Verify that the conclusions were timely reflected in the proposed indirect rates.	
UPDATES TO THE CONTRACTING OFFICER	
DFARS 252.215-7002(d)(4)(xiv), states: "An acceptable estimating system shall accomplish the following function: . . . Provide procedures to update cost estimates and notify the Contracting Officer in a timely manner throughout the negotiation process."	
13. For selected proposals that have been negotiated, verify that significant estimates were based on a set of data and assumptions reasonably current given the date of actual negotiations. If not current, verify that the contractor provided an update to the Contracting Officer prior to concluding negotiations.	
14. If applicable, verify any known expected changes that may affect proposed amounts (such as planned organizational changes) were disclosed to the government in a timely manner to ensure the government had reliable information for negotiation.	
SUMMARIZE THE RESULTS	
15. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
16. Determine the root cause for any non-compliances and document the effect of the noncompliance(s).	
17. Summarize the results of audit. Draft Statement(s) of Conditions and Recommendations (SOCAR) and obtain supervisory approval. Using professional judgment, quantify the audit findings associated with the noncompliance when possible.	
18. Discuss findings with the contracting officer.	
19. Discuss the findings with the contractor and provide a draft SOCAR. Obtain the contractor's response.	

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E-01 Comprehensive Criteria	WP References
Version 1.1, dated Jun 2025	
SOUND AND ADEQUATE PROPOSALS	
<p>DFARS 252.215-7002(d)(4)(xvi), states:</p> <p>“An acceptable estimating system shall accomplish the following function:</p> <p>. . . Provide estimating and budgeting practices that consistently generate sound proposals that are compliant with the provisions of the solicitation and are adequate to serve as a basis to reach a fair and reasonable price.”</p>	
<p>1. Based on the DFARS business system requirements for estimating techniques and preventive, detective and corrective controls, and considering the audit results in those areas, determine if the contractor’s estimating system provides for estimating and budgeting practices that consistently generate sound proposals that are adequate to serve as a basis to reach a fair and reasonable price.</p> <p>In addition, consider if the contractor’s estimating system policies and procedures ensure the following:</p> <ul style="list-style-type: none"> a. Proposed costs, whether direct or indirect, exclude unallowable costs in compliance with FAR 31.201-6, Accounting for unallowable costs. b. Labor rates comply with FAR 31.205-6, Compensation for personal services. c. Direct Material, Subcontract, and Interdivisional Work Orders (IWO) comply with FAR 31.205-26, Material costs. d. Indirect costs comply with the provisions of FAR 31.203, Indirect costs. 	
<p>2. Compare price proposals to their solicitations to determine if the proposals are compliant with the provisions of the solicitation and can adequately serve as a basis to reach a fair and reasonable price.</p> <p>Determine if the contractor maintains processes to ensure:</p> <ul style="list-style-type: none"> a. Proposals requiring certified cost or pricing data comply with the requirements of FAR 15.408, Table 15-2, Instructions for Submitting Cost/Price Proposals When Certified Cost or Pricing Data Are Required. <ul style="list-style-type: none"> • Include the prime contractor’s proposal, IWO proposals based on cost, and subcontract proposals that require certified cost and pricing data. b. Make-or-buy decisions are appropriately documented and demonstrate the decision to make the item rather than procure the item in the competitive market results in a fair and 	

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E-01 Comprehensive Criteria	WP References
<p>reasonable price in compliance with FAR 15.407-2, Make-or-buy programs.</p> <p>c. The contractor appropriately excludes Cost of Money (COM) in calculation of fee or profit in compliance with FAR 15.404, Profit.</p>	
COMPLIANCE WITH FAR AND DFARS	
<p>DFARS 252.215-7002(d)(4)(xvii), states:</p> <p>“An acceptable estimating system shall accomplish the following function:</p> <p>. . . Have an adequate system description, including policies, procedures, and estimating and budgeting practices that comply with the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement.”</p>	
<p>3. Based on the contractor’s estimating system disclosure, estimating system walkthroughs, demonstrations and audit procedures performed, determine if the contractor has an adequate system description, including policies, procedures, and estimating and budgeting practices that comply with the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement.</p> <p>In addition, document any policies, procedures, or practices with the contractor’s estimating system description that do not comply with Federal Acquisition Regulation or Defense Federal Acquisition Regulation Supplement</p>	
SUMMARIZE THE RESULTS	
<p>4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	
<p>5. Determine the root cause for any non-compliances and if practicable, determine the impact.</p>	
<p>6. Summarize the results of audit. Draft Statement(s) of Conditions and Recommendations (SOCAR) and obtain supervisory approval. Using professional judgment, quantify the audit findings associated with the noncompliance when possible.</p>	
<p>7. Discuss the findings with the contracting officer.</p>	
<p>8. Discuss the findings with the contractor and provide a draft SOCAR. Obtain the contractor’s response.</p>	

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A-1 Concluding Steps	WP References
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<p>1. Team discussion. Hold a meeting with the audit team (e.g., RAM, Manager, Supervisor, Technical Specialists and Auditors) and discuss non-compliances with the DFARS criteria identified in the audit, the impact (or potential impact) of the non-compliances, and whether non-compliances are:</p> <ul style="list-style-type: none"> a. Material Weaknesses, b. System Deficiencies, or c. Less than Material Non-compliances that Warrant the Attention of Those Charged with Governance (Contractor and Contracting Officer). <p>Determine the audit opinion.</p> <p><i>Note: When the audit procedures only identify system deficiencies, assess if the system deficiencies in aggregate represent a material weakness.</i></p>	
<p>2. Summarize results and draft the audit report. Include all material weaknesses and system deficiencies in the exhibits in the audit report.</p> <p>Also include deficiencies reported in business system deficiency reports that were issued under a separate assignment number during the course of the audit. <i>(Note the business system deficiency report number, date of the report and the status of the deficiencies in the condition statement.)</i></p> <p>Report Less than Material Non-compliances that Warrant the Attention of Those Charged with Governance (Contractor and Contracting Officer) in the Appendix.</p>	
<p>3. Obtain supervisory review of the working papers and the draft audit report.</p>	
<p>4. After obtaining DCAA management approval, conduct a final exit conference with the contractor to summarize the results of audit. Confirm previously provided responses to non-compliances are still accurate and request the contractor to provide any updates for inclusion in the report. Invite the contracting officer.</p>	
<p>5. Finalize the audit report and incorporate any updates to the contractor's reaction and auditor's response.</p>	
<p>6. Prepare any required audit lead sheets and submit to supervisor for approval. Update permanent files.</p>	

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A-1 Concluding Steps	WP References
7. If significant instances of CAS non-compliances are identified, coordinate and discuss with supervisory auditor and report under activity code 19200 in accordance with Agency guidance.	