MASTER AUDIT PROGRAM

Activity Code 42000	**Truth in Negotiations Audit**
B-1 Planning Considerations	**Version 13.2, dated Jun 2025**

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 or 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
This standard audit program assists the auditor in planning and performing a Truth in Negotiations audit to determine if a negotiated contract price was increased by a significant amount because the contractor did not submit or disclose accurate, complete, and current cost or pricing data. The audit program steps should be tailored as appropriate.

Planning Considerations
1. Contact the respective Financial Liaison Advisor (FLA) and seek their assistance, as necessary. If there is no FLA assigned, contact the Senior FLA assigned to the respective Service, Defense Agency, or non-Defense organization.
2. Ensure the potential contract action selected for audit consideration warrants the initiation of detailed audit procedures based on risk. In most cases, DCAA has limited knowledge of the pricing actions as well as the actual contract negotiations, and therefore, must perform preliminary steps to better define the risk of defective pricing of the potential pricing actions.
3. Accomplish a detailed risk assessment to determine if the subject pricing action covered by 10 U.S.C. Chapter 271: Truthful Cost or Pricing Data: (Truth in Negotiations) or 41 U.S.C. Chapter 35; Truthful Cost or Pricing Data is suitable for audit.
4. Once it has been determined to proceed with a detailed examination based upon preliminary/detailed risk assessment procedures:
a. Determine whether the individual covered contract complies with 10 U.S.C. Chapter 271 or 41 U.S.C. Chapter 35 (similar provisions applicable for executive agencies other than DoD, NASA, and the U.S. Coast Guard). The appropriate criteria should be identified at the onset of the engagement when the audit team discusses and documents the subject matter and criteria of the engagement in WP A-01.

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Planning Considerations
b. Recommend contract price adjustments to cognizant contracting officers if contracts are not in compliance. To determine noncompliance, the audit team must design procedures to establish that:
1) The information in question fits the definition of cost or pricing data.
2) Accurate, complete, and current data existed and were reasonably available to the contractor before the agreement on price or another date agreed upon by the parties.
3) Accurate, complete, and current data were not submitted or disclosed to the contracting officer or one of the designated representatives of the contracting officer and that these individuals did not have actual knowledge of such data or its significance to the proposal.
4) The Government relied on defective certified cost or pricing data in negotiating with the contractor.
5) The Government's reliance on defective certified cost or pricing data caused an increase in the contract price.
5. The audit team is expected to exercise professional judgment, considering vulnerability and materiality, in determining the scope of audit.
a. This program is intended to provide a logical sequence to the audit effort and to reflect a mutual understanding among the audit team as to the scope required to meet auditing standards and DCAA objectives for the current assignment.
b. The detailed audit steps are intended to be general guidance and should be expanded or eliminated as necessary to fit the current audit (CAM 3-203).
c. Include audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, abuse, or illegal acts that are material (CAM 4-702).
6. Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.

References
1. CAM 14-100 Section 1 – Truth in Negotiations Compliance Audits of Contractor Certified Cost or Pricing Data
2. CAM 4-304.3 Postaward Audits of Certified Cost or Pricing Data for Possible Defective Pricing
3. CAM 1-504.4 Conditions Representing Denial of Access to Contractor Records

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B-1 Preliminary Steps	**WP Reference**
Version 13.2, dated Jun 2025	
1. Confirm the following:	
a. The contract includes (or should include) the contract clauses relating to Price Reduction for Defective Certified Cost or Pricing Data, FAR 52.215-10, 11, 12, and 13. If the clauses are not in the contract, contact the Procuring Contracting Officer (PCO) to determine if the contract is a negotiated procurement and subject to the defective pricing clauses. *Note: Absence of the price reduction clause in a contract that requires such a clause does not prevent the Government from performing a post award audit for defective pricing. (CAM 14-112.1)* If the contract is subject to the truth in negotiations statute, determine if you can obtain the required evidence before access to the records expires (CAM 14-110b).	
• The Government relied on certified cost or pricing data used in negotiating the contract. To determine this information, obtain a copy of the Price Negotiation Memorandum (PNM) and determine if it includes a reliance statement. If the PNM is not available in the office, obtain a copy from the PCO. If there are problems obtaining the PNM from the contracting officer, request assistance from the FLA. *Note: The purpose of the obtaining confirmation is to establish if the audit team should engage in an audit. Contact the PCO to discuss and confirm if the Government relied on the certified cost or pricing data. The audit team should document confirmation of the reliance with the contracting officer, as reliance without confirmation is not sufficient.*	
b. If the pricing action is a subcontract, contact the prime contract auditor and obtain evidence to determine the following: • The prime contract contains the contract clauses entitled Price Reduction for Defective Certified Cost or Pricing Data that are in FAR 52.215-10 and 11 (covers price reductions for the contractor and subcontractors). • If the Government and prime contractor relied on the subcontractor certified cost or pricing data.	
2. If the audit team determines that the pricing action is not subject to 10 U.S.C. Chapter 271, (*or if Non-DoD, 41 U.S.C. Chapter 35*), document the basis for this determination and confirm with the PCO. Prepare a Memorandum for Record (MFR) summarizing the basis for this determination and cancel the assignment.	

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B-1 Preliminary Steps	**WP Reference**
a. Notify the appropriate contracting officer that we are assessing the need for a Truth in Negotiations (10 U.S.C Chapter 271) compliance audit on the subject contract. Coordinate with the appropriate contracting officer to inquire about specific concerns they may have about the submitted cost or pricing data. Advise the contracting officer that we will discuss the results of the risk assessment procedures with them to make a determination as to whether or not to proceed with an audit.	
b. Notify the contractor that we will be performing risk assessment procedures and that you will be contacting them to coordinate a date for a walkthrough of its final certified position and the major events associated with this pricing action. Request the contractor provide such information as follows: • Copies of the contractor's proposal(s), • Identification of significant subcontracts, • Identification of significant inter-organizational transfers (IOT) (includes transfers between divisions, subsidiaries, or affiliates under common control), • Final Certificate of Current Cost or Pricing Data (CAM 14-107), • Identification of all certified cost or pricing data submitted before or during negotiations, • A list of additional data submitted between the date of price agreement and the date of the Certificate of Current Cost or Pricing Data; including certified cost or pricing data provided to the contracting officer subsequent to the last formal proposal update (i.e., final sweep, if applicable, see CAM 14-117.4), and • Costs incurred to date **by cost element** and estimates at completion (EAC) by cost element. *Note: A proforma letter is contained in WP 11b.*	
3. If the pricing action selected is a subcontract to determine: a. Relevant dates for recovery at the prime contract level. *Refer to CAM 14-116.3 for guidance on relevant dates and contract type.* b. The subcontract baseline value (i.e., the amount the prime contractor submitted to the Government to reach final price agreement).	

B-1 Preliminary Steps	**WP Reference**
4. Brief the contract, including modifications, to identify and document pricing actions that only have an effect on the contract price. (See Contract Brief pro forma, WP 14.) (If examining a subcontract, brief the prime contract). Some examples of interest are: • Scope of work was added or deleted, • Order quantity increased/decreased, • Change from fixed-price Contract Line Item Number (CLIN) to flexibly-priced, • Special contract clauses in Section H (e.g., reopener clause), etc. Discuss the implications of each with your supervisor. *Note: If there are numerous modifications, consider requesting a conformed contract from the PCO, this includes the contract and all modifications in a single document. If a conformed contract is unavailable, obtain the contract and modifications from Electronic Data Access (EDA).*	
5. Analyze the PNM and any attached or referenced documents (e.g., pre-negotiation memorandum) to identify and document areas of potential risk for defective pricing including, for example: a. no pre-award forward pricing audit performed, b. few or no proposal updates provided during proposal audit, c. the contractor had not completed its cost or price analyses on significant subcontracts at time of price agreement; d. significant time elapsed between audited proposal date and price agreement date, e. additional cost or pricing data or substantively new proposal provided after pre-award, etc. If the pricing action is a subcontract, obtain both the PNM between the Government and prime contractor as well as the negotiation memorandum between the prime contractor and the subcontractor. *Note: Read CAM 14-111.*	
6. Materiality, Sensitivity, and Inherent Risk Factors – Document and evaluate the following data and document any potential risk factors identified:	
a. Contract type and its effect on the overall audit approach. (If other than firm-fixed-price (FFP), the Net Recommended Price Adjustment will generally be less than the value of any defective pricing discovered).	
b. Dollar value of the pricing action.	

B-1 Preliminary Steps	**WP Reference**
c. If a pre-award audit of the contractor's proposal was performed, evaluate the Defective Pricing Lead Sheet –Part A and use the PNM to complete Part B of the Defective Pricing Lead Sheet (this includes audited subcontract proposals). Identify other potential defective pricing leads to help establish the audit scope.	
d. Review the permanent file to determine the history of defective pricing, (i.e., findings that impact the completeness, accuracy and currency of cost or pricing data) and/or defective pricing leads.	
7. Review permanent file to determine if previous audits included findings and recommendations related to the subject matter. If there were findings, material to the subject matter, document this information 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.	
8. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter. If there are no other studies or audits, document that information and perform the procedures below.	
a. Ask contractor management if internal audits were performed. If yes, request contractor provides a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.	

B-1 Preliminary Steps	**WP Reference**
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 to provide access to relevant internal audit reports. • The request should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative working papers.	
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. 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.	
9. 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

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B-1 Preliminary Steps	**WP Reference**
10. Coordinate a date with the contractor to provide a walkthrough of its final certified position and the major events associated with this pricing action. Invite the PCO. The walkthrough should include the following, including, any questions resulting from other procedures: • Highlighting all significant certified cost or pricing data provided to the contracting officer (e.g., latest certified proposal plus any subsequent cost or pricing data submitted up to the time of price agreement to include sweep data, if applicable (see CAM 14-117.4) to include a discussion of the contractor's documentation of negotiations. • A discussion of the contractor's process and internal controls in place at the time of negotiations to ensure that the company disclosed the most accurate, complete and current cost or pricing data. • Explanation by the contractor on how they accumulated costs in the accounting system to facilitate a comparison of the actual costs to the proposed/negotiated costs. For example, if the contractor proposed by Work Breakdown Structure (WBS), have the contractor identify the charge numbers for each WBS. If, however, the company accumulated in more detail than the proposed costs, have the contractor identify how the actual costs roll up to the proposed costs.	
11. Determine an initial audit baseline for the risk assessment phase of the audit in order to determine the materiality of the cost elements and perform the overrun/underrun analysis. For risk assessment purposes, use the PNM, if practical, to establish the initial audit baseline by cost element. If not practical, use any of the following: • latest proposal, • disclosed data during negotiations, or • sweep data, if applicable (see CAM 14-117.4) *Note: A precise baseline calculation is not necessarily required at this time. Auditors should prepare a more detailed baseline in accordance with CAM 14-114.2 in the detailed audit steps when calculating the recommended price adjustment should you later determine defective pricing exists.*	
a. Assess the materiality of the cost elements.	
b. For materially significant cost elements, prepare a baseline by significant sub-elements and assess materiality (e.g. direct labor hours and rates, different material categories, high dollar material parts, subcontracts, IOTs, etc.). Use auditor judgment and discuss with audit team. *Note: Sometimes the contractor does not properly segregate cost elements such as subcontracts and IOTs from direct material. Audit team should document their understanding of the make-up of the cost element/sub-element and determine audit baseline.*	

B-1 Preliminary Steps	**WP Reference**
12. Perform an Overrun/Underrun Analysis a. Determine the value of performing an overrun/underrun analysis considering various factors, including: • The extent that the Estimate at Completion (EAC) is comprised of the Estimate to Complete (ETC), • The condition of the recorded costs, o The additional procedures necessary to establish the reliability of: ▪ ETC ▪ Recorded Costs	
• The number and complexity of engineering change orders and other changes that might impair comparability, etc. Discuss this determination with your supervisor. If a determination is made to perform the overrun/underrun analysis, complete sub-steps b and c below: b. Calculate the difference between the recorded costs incurred and/or a current EAC and the baseline costs by element/sub-element. c. Assess the importance that the overrun analysis has in determining risk and accomplishing the audit objectives. Use this to determine the procedures necessary to establish the reliability of the components of the EAC (recorded costs plus ETC). Identify relevant testing previously performed by DCAA, and immediately plan and perform any additional procedures to mitigate risk. *Note: When the contract is incomplete and the contractor does not provide an EAC, try using other records to perform the tests. Other sources of EAC and contract performance data include, but are not limited to, progress payment requests, Earned Value Management System (EVMS) surveillance reports, Quarterly Limitation on Payment Statements, or the latest contract budgetary data. Consider whether the lack of current EACs may indicate a deficiency in a contractor system (e.g., billing system).* For those materially significant elements with pronounced over or underruns, make inquiries to assess the cause(s), and confirm your understanding. In addition to the contractor, you may direct inquiries to contracting officers (ACO and PCO) and the Contracting Officer Technical Representative (COTR). Use this information to help tailor your planned procedures. *For example, if you find a labor cost underrun is due to labor rates to which the contractor attributes to unanticipated new hires, establish detailed step(s) to obtain evidence showing the date on which the contractor first planned the hiring.*	

B-1 Preliminary Steps	**WP Reference**
13. Go/No-Go Determination. Discuss with the audit team the evidence obtained through the accomplishment of the previous procedures. Determine the overall risk that the contract price was materially increased due to defective certified cost or pricing data. If the audit team determines that the overall risk is minimal, document the rationale used to make the determination, discuss with the PCO and contractor, and prepare a memorandum notifying the PCO and contractor that the assignment has been terminated. Additionally, prepare a memorandum for the record (WP 01a) to document closing of the assignment. *Note: A proforma memorandum to the PCO and letter to the contractor is contained in WP 11e and 11f.* Otherwise, continue with the following Risk Assessment/Preliminary Steps.	
Note: The overrun/underrun analysis should not be the sole basis for determination for the Go/No-Go decision. Consider all the risk assessment procedures including the contracting officer's areas of concern, the review of the PNM (e.g., reliance placed on data that is not what you expect under the circumstances), previous non-compliances, audit leads, etc.	
14. Begin preparing the Chronology of Significant Events (WP A) with key dates that may include the following: • Certification date • Initial audit report date • Date of last proposal before certification • Date of final sweep, if applicable (see CAM 14-117.4) *Note: For each significant event, document the details of the verification (i.e., date verified, document verified, point of contact information, rationale for the lack of date, etc.). The audit team should monitor the chronology of significant events throughout the audit as more information becomes available, and update it as needed.*	
15. When verifying final payment, the audit team should verify several sources (e.g., DFAS final payment notice) for accuracy and document the details of the verification. The right to examine contractor records expires three years after final payment; therefore, determining an accurate date of final payment is essential to the audit.	

B-1 Preliminary Steps	**WP Reference**
16. For significant Inter-Organizational Transfers (IOT), assess the risk of defective pricing based on the IOT's submitted cost or pricing data. Assess the need for requesting an EAC using the one audit approach and coordinate with the cognizant DCAA office to ensure timely receipt. Perform audit effort required for IOTs in WP Section G. *Note: The date of certification for IOT's is the date of certification between the division awarded the pricing action and the Government.*	
17. For significant subcontract costs, perform an initial assessment to identify risk: a. of defective pricing at the subcontractor level and determine what actions are necessary to address the risk, and b. that the subcontractor provided cost or pricing data to the prime that differed from the facts the prime contractor provided to the Government.	
18. Based on inherent risk and your preliminary understanding of control risk factors, identify the cost elements/sub-elements that are significant to your audit and document the risk-based rationale. Discuss with your supervisor and obtain agreement.	
19. Document your understanding of internal controls the contractor used to ensure the cost or pricing data on the elements/sub-elements selected above, complied with 10 U.S.C. Chapter 271 using the framework of WP B-02 (e.g., required comprehensive sweep, if applicable (see CAM 14-117.4), required real-time documentation of negotiations with suppliers, etc.).	
20. Identify those areas that require a request for specialist assistance and/or audit assistance and document on WP B-03. If the need for specialist assistance and/or assist audits is subsequently identified, B-03 should be modified, as appropriate. *Note: An example technical specialist assistance request letter is available at Add\Library Access\Other Audit Guidance\TechSpecDoc.doc.*	
21. Fraud Risk Indicators Using the framework in WP B-09, discuss the fraud risk indicators with the audit team.	B-09

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B-1 Preliminary Steps	WP Reference
22. For those elements selected, tailor the detailed audit steps to ensure the tests of details are responsive to the assessed risk. Ensure there is a clear link between the risk assessment and the audit procedures. Discuss with your supervisor (and the audit team) the overall results of the risk assessment and the audit scope. Obtain and document supervisory approval of the risk assessment and the planned scope of examination for each cost element documented in WP B and -01 WPs.	
23. Conduct an entrance conference with both the contractor and the Contracting Officer. Confirm the audit team's understanding of the cost or pricing data and the potential of undisclosed data. Discuss the availability of required data and personnel necessary to timely support the audit. If a subcontract, obtain the subcontractor's written consent for release of the audit report to the prime, or reason(s) for not authorizing released.	
24. Send a formal acknowledgment memorandum to the appropriate contracting officer. *Note: Discuss with the contracting officer how to present the findings in the audit report to assist in negotiations.*	
25. Send a formal notification letter to the contractor.	

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D-1 Direct Labor Rates	WP Reference
Version 13.2, dated Jun 2025	
1. If necessary, refine overrun/underrun analysis using the baseline and actual direct labor rates incurred by category to determine if significant variances exist.	
2. If any significant variances exist, determine if there were more current labor rates available that were not disclosed or if the underlying composition of the employees within the labor category changed.	
3. Compare the baseline direct labor rates to those included in the contractor's bidding rate submission or rate agreement in effect as of the date of price agreement. Evaluate significant variances to determine the cause and if there was any known data that was not disclosed.	
4. If management approved labor rates changed shortly after the certification date, compare the rates to the baseline rates and identify the events and facts causing the variance. If the contractor was aware of these facts prior to the certification date, determine if the contractor adequately disclosed them to the Government.	
5. Determine the date and status of union agreements, if applicable, that the baseline direct labor rates were based on, or affected by, as of the date of agreement on price. If there are significant variances and the contractor failed to use the agreed to union rates, determine the rationale and obtain substantive evidence for the rationale.	
6. Based on the information reviewed in steps 1 through 5, determine if additional cost or pricing data related to labor rates (including Forward Pricing Rate Agreements) was available but not submitted prior to agreement on price.	
7. If historical data was used in the certified cost or pricing data relied upon, perform tests of details to provide reasonable assurance the historical data was in compliance with 10 U.S.C. Chapter 271 (or if Non-DoD, 41 U.S.C. Chapter 35) (i.e., accurate, complete and current). In determining the need for tests of details document and reference any pertinent tests of details previously completed in other assignments.	
8. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and obtain the required certification (CAM 14-115).	
9. Summarize the preliminary results. *Note: Ensure that you have sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current cost or pricing data as of the certification date.*	

D-1 Direct Labor Rates	**WP Reference**
10. For identified potential defective pricing, discuss with the supervisor to confirm the finding. Explain the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective. *Note: The distinction between fact and judgment should be clearly understood. The data identified as defective must also fit the definition of cost or pricing data. The certification required by 10 U.S.C. Chapter 271: Truthful Cost or Pricing Data (Truth in Negotiations) does not constitute a representation as to the accuracy of the contractor's judgment on the estimate of future costs or projections. It only applies to the data upon which the judgment or estimate was based.*	
11. Verify that DCAA did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
12. Calculate the recommended price adjustment using an appropriate baseline direct labor costs and the associated costs and profit (CAM 14-114.3d). *Note: The working papers must establish the five elements of defective pricing have been met (CAM 14-102b).*	
13. Prepare a draft report note and establish the five elements of defective pricing. *Note: Establishing the five elements of defective pricing is necessary to support the recommended price adjustment above and provides the contracting officer with the information necessary to adjust the contract price for defective cost or pricing data (CAM 14-102b).*	
a. *The information in question fits the definition of cost or pricing data.* Identify the factual data in question and provide the relevant parts of the FAR 2.1 definition of cost or pricing data. Explain how the data in question meets the definition (CAM 14-104.2).	
b. *Accurate, complete, and current data existed and were reasonably available to the contractor before the date of agreement on the price.* Provide the date that the accurate, complete, and current data was reasonably available to the contractor and the date of agreement on the price (or, if applicable, the other date agreed upon between the parties). Explain how you determined the data existed and was reasonably available prior to the date of agreement on price.	

D-1 Direct Labor Rates	**WP Reference**
Note: Emphasize that the availability date was prior to the date of agreement on the price (CAM 14-105.2).	
c. *Accurate, complete, and current data were not submitted or disclosed to the contracting officer or one of the authorized representatives of the contracting officer and that these individuals did not have actual knowledge of such data or its significance to the proposal.* Discuss the knowledge of the contracting officer regarding the data and the data available to the contractor. Describe how the audit team was able to confirm that the contractor did not submit the data (e.g., no record of submission in contractor or Government proposal files, confirmation memorandum) and that the Government had no actual knowledge of the data, e.g., PNM, Government contract files, technical evaluation report, contractor's submission, proposal audit report, audit working papers, etc. (CAM 14-105). *Note: If the contractor claims it disclosed the data, obtain evidence to corroborate the statement (e.g., review of the negotiations log, email correspondence, etc.).*	
d. *The Government relied on the defective data in negotiating with the contractor.* Identify the certified cost or pricing data the Government relied on in negotiating with the contractor. Discuss how reliance was confirmed, such as reconciling the defective cost or pricing data to the final negotiated amounts in the PNM (or supporting documents) and sending a confirmation memorandum to the contracting officer. Reference appropriate documents (e.g., PNM, confirmation memorandum, etc.). See CAM 14-111. *Note: Reconciling the cost or pricing data can be performed directly to specific negotiated amounts, element of cost, or total costs (e.g., subcontractor, direct material, labor hours/amounts, etc.) or other documents referenced in the PNM.*	
e. *The Government's reliance on the defective data caused an increase in the contract price.* Specifically state the amount (calculated in the prior audit step) by which the contract price was increased as a result of the Government's reliance on the defective data. Explain how the Government's reliance on the defective data caused an increase in price (e.g., the defective data was the basis for the Government's position used to negotiate the final contract price).	

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E-1 Labor Hours	**WP Reference**
Version 13.2, dated Jun 2025	
1. If necessary, refine your overrun/underrun analysis using the baseline *labor* hours to actual or estimates at completion (EAC) labor hours at a more detailed level (e.g., by labor category, tasking function, major section of Statement of Work (SOW), etc.) to determine if significant variances exist.	
2. Perform the following steps, if applicable, to determine the rationale for the variances identified in Step 1and if there was data available that was not disclosed as of the date of agreement on price.	
a. Determine if the contractor used a different skill mix of employees than proposed.	
b. Determine if judgment was the basis of estimate. If so, determine if history was available and not disclosed.	
c. Determine if history was the basis of estimate. If so, determine if the contractor provided the most relevant and current history to the Government.	
d. Determine if labor standards were the basis of the estimate. If so, determine if: • the contractor used the most current standards available as of the certification date. *Note: Standards may include set-up, run time, and applied efficiency factors.* • estimated standards reflect methodology used in calculating recorded standards (e.g. proposed standards based on production lots of one each while recorded standards show production lots greater than one). • the standards changed shortly after the certification date. If so, compare the revised standards to the baseline standards and identify the events and facts that led to the revised standards. If the contractor was aware of these facts prior to the certification date, determine if the contractor adequately disclosed them to the Government. • the risk that an activity included in the standards, was duplicated in other proposed rates and factors (e.g., standard includes support activity that is also included in labor support factor, etc.).	

E-1 Labor Hours	**WP Reference**
e. Determine if improvement curves were used as a basis for estimate. If so, determine if the actual hours plotted in the improvement curve were current. Determine that all completed production lots were disclosed in the improvement curve; assure that the improvement curve included all applicable units (i.e. does not exclude commercial or Foreign Military Sales); and all applicable hours from prior contracts were included in the improvement curves. Consider adjustments for any make-or-buy decisions, changes in production methods or engineering design changes that affect the use of prior production hours. Discuss any discrepancies with your supervisor.	
f. Determine if the basis of estimate for any labor hours are Cost Estimating Relationships (CERs) or factors. If so, then review the basis of the CERs or factors and determine that they are current as of the price agreement date. Verify that the methodology for estimating CER or factored hours is consistent with the CER or factor development. Verify that the contractor provided relevant historical hours for Government consideration.	
3. If historical data was used in the certified cost or pricing data relied upon, perform tests of details to provide reasonable assurance the historical data was in compliance with 10 U.S.C. Chapter 271 (or if Non-DoD, 41 U.S.C. Chapter 35) (i.e., accurate, complete and current). Assess the risk that inappropriate labor transfers impaired the accuracy of the historical data. In determining the need for tests of details, document and reference any pertinent test of details previously completed in other assignments.	
4. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification (CAM 14-115).	
5. Summarize the preliminary results. *Note: Ensure that you have sufficient evidential matter to conclude that the contractor **did or did not** disclose the most accurate, complete and current cost or pricing data as of the certification date.*	

E-1 Labor Hours	**WP Reference**
6. For identified potential defective pricing, discuss with the supervisor to confirm the finding. Explain the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective. *Note: The distinction between fact and judgment should be clearly understood. The data identified as defective must also fit the definition of cost or pricing data. The certification required by 10 U.S.C. Chapter 271: Truthful Cost or Pricing Data (Truth in Negotiations) does not constitute a representation as to the accuracy of the contractor's judgment on the estimate of future costs or projections. It only applies to the data upon which the judgment or estimate was based.*	
7. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual date and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
8. Calculate the recommended price adjustment using the appropriate baseline direct labor costs and the associated costs and profit (CAM 14-114.3d). *Note: The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).*	
9. Prepare a draft report note and establish *the five elements of defective pricing*. *Note: Establishing the five elements of defective pricing is necessary to support the recommended price adjustment above and provides the contracting officer with the information necessary to adjust the contract price for defective cost or pricing data (CAM 14-102b).*	
a. *The information in question fits the definition of cost or pricing data.* Identify the factual data in question and provide the relevant parts of the FAR 2.1 definition of cost or pricing data. Explain how the data in question fits the definition (CAM 14-104.2).	

E-1 Labor Hours	**WP Reference**
b. *Accurate, complete, and current data existed and were reasonably available to the contractor before the date of agreement on the price.* Provide the date that the accurate, complete, and current data was reasonably available to the contractor and the date of agreement on the price (or, if applicable, the other date agreed upon between the parties). 3Explain how you determined the data existed and was reasonably available prior to the date of agreement on price. *Note: Emphasize that the availability date was prior to the date of agreement on the price (CAM 14-105.2).*	
c. *Accurate, complete, and current data were not submitted or disclosed to the contracting officer or one of the authorized representatives of the contracting officer and that these individuals did not have actual knowledge of such data or its significance to the proposal.* Discuss the knowledge of the contracting officer regarding the data and the data available to the contractor. Describe how the audit team was able to confirm that the contractor did not submit the data (e.g., no record of submission in contractor or Government proposal files, confirmation memorandum) and that the Government had no actual knowledge of the data, e.g., PNM, Government contract files, technical evaluation report, contractor's submission, proposal audit report, audit working papers, etc. (CAM 14-105). *Note: If the contractor claims it disclosed the data, obtain evidence to corroborate the statement (e.g., review of the negotiations log, email correspondence, etc.).*	
d. *The Government relied on the defective data in negotiating with the contractor.* Identify the certified cost or pricing data the Government relied on in negotiating with the contractor. Discuss how reliance was confirmed, such as reconciling the defective cost or pricing data to final negotiated amounts in the PNM (or supporting documents) and sending a confirmation memorandum to the contracting officer. Reference appropriate documents (e.g., PNM, confirmation memorandum, etc.). See CAM 14-111. *Note: Reconciling the cost or pricing data can be performed directly to specific negotiated amounts, element of cost, or total costs (e.g., subcontractor, direct material, labor hours/amounts, etc.) or other documents referenced in the PNM.*	

E-1 Labor Hours	**WP Reference**
e. *The Government's reliance on the defective data caused an increase in the contract price.* Specifically state the amount (calculated in the prior audit step) by which the contract price was increased as a result of the Government's reliance on the defective data. Explain how the Government's reliance on the defective data caused an increase in price (e.g., the defective data was the basis for the Government's position used to negotiate the final contract price).	

MASTER AUDIT PROGRAM

F-1 Material	**WP Reference**
Version 13.2, dated Jun 2025	
1. If necessary, refine your overrun/underrun analysis using the baseline material amounts/prices to actual or estimates at completion (EAC) material amounts/prices at a more detailed level (e.g., by category of material, tasking function, major section of Statement of Work (SOW), part number, etc.) to help focus your evaluation.	
2. Based on the results above and prior experience with the contractor, select items for evaluation and document your rationale. *Note: Refer to CAM 14-117.5 if statistical sampling is used.*	
3. For those items under review, compare the baseline unit cost, kind and quantity to the actual unit cost, kind and quantity as shown on the purchase order (PO). Review the purchase order history and the complete buyer's file (e.g. quotes, negotiation summary, correspondence, PO, etc.) to determine if any data existed that was not adequately disclosed to the Government that would cause an increase in the contract price. The following are some example steps that should be considered and tailored for your specific situation:	
a. For those items where the actual unit cost is less than the baseline unit cost, review the buyer's file to determine if records existed prior to the certification date indicating the lower unit price was known (e.g., quote received, correspondence, PO placed, counter offers from supplier, etc.). If the buyer's file is incomplete, discuss with your supervisor. Consider alternate procedures, such as obtaining third party confirmation to determine whether the contractor was aware of the reduced cost before price agreement (CAM 14-117.6).	
b. If the kind and/or quantity of material purchased are different from the kind and/or quantity of material included in the baseline, determine reasons for differences and ascertain when the contractor made the change. If the actual supplier is different from the baseline supplier, assess the risk that the contractor purchased an inferior component (i.e., product substitution).	
c. If there is no consolidated bill of materials, determine if any parts were duplicated resulting in overstated material costs.	
d. Determine the basis of all other material additive rates/factors (e.g., material rework, scrap, low dollar material items, etc.), if applicable, applied to material costs including intracompany costs. Compare baseline and experienced actual rates/factors (e.g., material rework, scrap, etc.) and evaluate significant variances for potential defective pricing. Ascertain that any material included in a factor was not also proposed discretely.	

F-1 Material	**WP Reference**
4. If historical data was used in the certified cost or pricing data relied upon, perform tests of details to provide reasonable assurance the historical data was in compliance with 10 U.S.C. Chapter 271 (*or if Non-DoD, 41 U.S.C. Chapter 35*) (i.e., accurate, complete and current). In determining the need for tests of detail, document and reference any pertinent tests of details previously completed in other assignments.	
5. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification (CAM 14-115).	
6. Summarize the preliminary results. *Note: Ensure that you have sufficient evidential matter to conclude that the contractor **did or did not** disclose the most accurate, complete and current cost or pricing data as of the certification date.*	
7. For identified potential defective pricing, discuss with the supervisor to confirm the finding. Explain the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective. *Note: The distinction between fact and judgment should be clearly understood. The data identified as defective must also fit the definition of cost or pricing data. The certification required by 10 U.S.C. Chapter 271: Truthful Cost or Pricing Data (Truth in Negotiations) does not constitute a representation as to the accuracy of the contractor's judgment on the estimate of future costs or projections. It only applies to the data upon which the judgment or estimate was based.*	
8. For identified potential defective pricing, discuss with the supervisor to confirm the finding. Verify that DCAA did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
9. Calculate the recommended price adjustment using the appropriate baseline the direct costs and the associated costs and profit (CAM 14-114.3d). *Note: The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).*	
10. Prepare a draft report note and establish *the five elements of defective pricing*. *Note: Establishing the five elements of defective pricing is necessary to support the recommended price adjustment above and provides the*	

F-1 Material	WP Reference
contracting officer with the information necessary to adjust the contract price for defective cost or pricing data (CAM 14-102b).	
a. *The information in question fits the definition of cost or pricing data.* Identify the factual data in question and provide the relevant parts of the FAR 2.1 definition of cost or pricing data. Explain how the data in question fits the definition (CAM 14-104.2).	
b. *Accurate, complete, and current data existed and were reasonably available to the contractor before the date of agreement on the price.* Provide the date that the accurate, complete, and current data was reasonably available to the contractor and the date of agreement on the price (or, if applicable, the other date agreed upon between the parties). Explain how you determined the data existed and was reasonably available prior to the date of agreement on price. Note: Emphasize that the availability date was prior to the date of agreement on the price (CAM 14-105.2).	
c. *Accurate, complete, and current data were not submitted or disclosed to the contracting officer or one of the authorized representatives of the contracting officer and that these individuals did not have actual knowledge of such data or its significance to the proposal.* Discuss the knowledge of the contracting officer regarding the data and the data available to the contractor. Describe how the audit team was able to confirm that the contractor did not submit the data (e.g., no record of submission in contractor or Government proposal files, confirmation memorandum) and that the Government had no actual knowledge of the data, e.g., PNM, Government contract files, technical evaluation report, contractor's submission, proposal audit report, audit working papers, etc. (CAM 14-105). *Note: If the contractor claims it disclosed the data, obtain evidence to corroborate the statement (e.g., review of the negotiations log, email correspondence, etc.).*	
d. *The Government relied on the defective data in negotiating with the contractor.* Identify the certified cost or pricing data the Government relied on in negotiating with the contractor. Discuss how reliance was confirmed, such as reconciling the defective cost or pricing data to final negotiated amounts in the PNM (or supporting documents) and sending a confirmation memorandum to the contracting officer. Reference appropriate documents (e.g., PNM, confirmation memorandum, etc.). See CAM 14-111.	

F-1 Material	**WP Reference**
Note: Reconciling the cost or pricing data can be performed directly to specific negotiated amounts, element of cost, or total costs (e.g., subcontractor, direct material, labor hours/amounts, etc.) or other documents referenced in the PNM.	
e. *The Government's reliance on the defective data caused an increase in the contract price.* Specifically state the amount (calculated in the prior audit step) by which the contract price was increased as a result of the Government's reliance on the defective data. Explain how the Government's reliance on the defective data caused an increase in price (e.g., the defective data was the basis for the Government's position used to negotiate the final contract price).	

MASTER AUDIT PROGRAM

G-1 Inter-organizational Transfers (IOT)	WP Reference
Version 13.2, dated Jun 2025	
1. For significant IOTs, perform an overrun/underrun analysis using the estimates at completion (EAC) obtained directly from the contractor or obtained from the cognizant DCAA office. Identify those IOTs with significant variances and design additional procedures to determine if the IOT's cost or pricing data were accurate, complete, and current. *Note: Consider using the one audit approach to obtain the data for the overrun/underrun from the cognizant DCAA office*.	
2. For cost based IOT's selected, ensure that profit was excluded from the prime contractor's price (FAR 31.205-26(e)).	
3. If historical data was used in the certified cost or pricing data under evaluation, perform tests of details to provide reasonable assurance the historical data was in compliance with 10 U.S.C. Chapter 271 (*or if Non-DoD, 41 U.S.C. Chapter 35*) (i.e., accurate, complete and current). In determining the need for tests of details, document and reference any pertinent test of details previously completed in other assignments.	
4. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and obtain the required certification (CAM 14-115).	
5. Summarize the preliminary results. *Note: Ensure that you have sufficient evidential matter to conclude that the contractor did or did not disclose the most accurate, complete and current cost of pricing data as of the certification date.*	
6. For identified potential defective pricing, discuss with the supervisor to confirm the finding. Explain the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective. *Note: The data identified as defective must also fit the definition of cost or pricing data. The certification required by 10 U.S.C. Chapter 271: Truthful Cost or Pricing Data (Truth in Negotiations) does not constitute a representation as to the accuracy of the contractor's judgment on the estimate of future costs or projections. It only applies to the data upon which the judgment or estimate was based. The distinction between fact and judgment should be clearly understood.*	
7. Verify that DCAA did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	

G-1 Inter-organizational Transfers (IOT)	**WP Reference**
8. Calculate the recommended price adjustment using the appropriate baseline IOT costs and the associated costs and profit (CAM 14-114.3d). *Note: The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).*	
9. Prepare a draft report note and establish *the five elements of defective pricing*. *Note: Establishing the five elements of defective pricing is necessary to support the recommended price adjustment above and provides the contracting officer with the information necessary to adjust the contract price for defective cost or pricing data (CAM 14-102b).*	
a. *The information in question fits the definition of cost or pricing data.* Identify the factual data in question and provide the relevant parts of the FAR 2.1 definition of cost or pricing data. Explain how the data in question fits the definition (CAM 14-104.2).	
b. *Accurate, complete, and current data existed and were reasonably available to the contractor before the date of agreement on the price.* Provide the date that the accurate, complete, and current data was reasonably available to the contractor and the date of agreement on the price (or, if applicable, the other date agreed upon between the parties). Explain how you determined the data existed and was reasonably available prior to the date of agreement on price. *Note: Emphasize that the availability date was prior to the date of agreement on the price (CAM 14-105.2).*	
c. *Accurate, complete, and current data were not submitted or disclosed to the contracting officer or one of the authorized representatives of the contracting officer and that these individuals did not have actual knowledge of such data or its significance to the proposal.* Discuss the knowledge of the contracting officer regarding the data and the data available to the contractor. Describe how the audit team was able to confirm that the contractor did not submit the data (e.g., no record of submission in contractor or Government proposal files, confirmation memorandum) and that the Government had no actual knowledge of the data, e.g., PNM, Government contract files, technical evaluation report, contractor's submission, proposal audit report, audit working papers, etc. (CAM 14-105). *Note: If the contractor claims it disclosed the data, obtain evidence to corroborate the statement (e.g., review of the negotiations log, email correspondence, etc.).*	
d. *The Government relied on the defective data in negotiating with the contractor.*	

G-1 Inter-organizational Transfers (IOT)	WP Reference
Identify the certified cost or pricing data the Government relied on in negotiating with the contractor. Discuss how reliance was confirmed, such as reconciling the defective cost or pricing data to final negotiated amounts in the PNM (or supporting documents) and sending a confirmation memorandum to the contracting officer. Reference appropriate documents (e.g., PNM, confirmation memorandum, etc.). See CAM 14-111. *Note: Reconciling the cost or pricing data can be performed directly to specific negotiated amounts, element of cost, or total costs (e.g., subcontractor, direct material, labor hours/amounts, etc.) or other documents referenced in the PNM.*	
e. *The Government's reliance on the defective data caused an increase in the contract price.* Specifically state the amount (calculated in the prior audit step) by which the contract price was increased as a result of the Government's reliance on the defective data. Explain how the Government's reliance on the defective data caused an increase in price (e.g., the defective data was the basis for the Government's position used to negotiate the final contract price).	

H-1 Subcontracts	WP Reference
Version 13.2, dated Jun 2025	
1. For each subcontractor with risk at the prime contractor level, obtain the subcontract agreement and find the baseline amount. Identify those subcontracts with significant variances for further evaluation.	
2. For those subcontractors selected, obtain and evaluate the buyer's file to determine if records existed prior to the prime certification date indicating a lower subcontract price was known (e.g., quote received, correspondence, purchase order (PO) placed, counter offers from subcontractor, etc.). If the buyer's file is incomplete, discuss with your supervisor. Consider alternate procedures, such as obtaining third party confirmation to determine whether the contractor was aware of the reduced subcontract price before price agreement (CAM 14-117.6).	
3. Assess the risk that the certified cost or pricing data submitted by the subcontractor did not comply with 10 U.S.C. Chapter 271 (e.g., prime's cost/price analysis indicates subcontract proposal was not in sufficient detail). Notify the cognizant DCAA office of the risk for their audit consideration.	

H-1 Subcontracts	**WP Reference**
4. If historical data was used in the certified cost or pricing data under evaluation, perform tests of details to provide reasonable assurance the historical data was in compliance with 10 U.S.C. Chapter 271 (*or if Non-DoD, 41 U.S.C. Chapter 35*) (i.e., accurate, complete and current). In determining the need for tests of details, document and reference any pertinent test of details previously completed in other assignments.	
5. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification (CAM 14-115).	
6. Incorporate the results of any assist audits received, if applicable.	
7. Summarize the preliminary results. *Note: Ensure that you have sufficient evidential matter to conclude that the contractor **did or did not** disclose the most accurate, complete and current cost or pricing data as of the certification date.*	
8. For identified potential defective pricing, discuss with the supervisor to confirm the finding. Explain the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective. *Note: The distinction between fact and judgment should be clearly understood. The data identified as defective must also fit the definition of cost or pricing data. The certification required by 10 U.S.C. Chapter 271: Truthful Cost or Pricing Data (Truth in Negotiations) does not constitute a representation as to the accuracy of the contractor's judgment on the estimate of future costs or projections. It only applies to the data upon which the judgment or estimate was based.*	
9. Verify that DCAA did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
10. Calculate the recommended price adjustment using the appropriate baseline subcontract costs and the associated costs and profit (CAM14-114.3d). *Note: The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).*	

H-1 Subcontracts	**WP Reference**
11. Prepare a draft report note and establish *the five elements of defective pricing*. *Note: Establishing the five elements of defective pricing is necessary to support the recommended price adjustment above and provides the contracting officer with the information necessary to adjust the contract price for defective cost or pricing data (CAM 14-102b).*	
a. *The information in question fits the definition of cost or pricing data.* Identify the factual data in question and provide the relevant parts of the FAR 2.1 definition of cost or pricing data. Explain how the data in question fits the definition (CAM 14-104.2).	
b. *Accurate, complete, and current data existed and were reasonably available to the contractor before the date of agreement on the price.* Provide the date that the accurate, complete, and current data was reasonably available to the contractor and the date of agreement on the price (or, if applicable, the other date agreed upon between the parties). Explain how you determined the data existed and was reasonably available prior to the date of agreement on price. *Note: Emphasize that the availability date was prior to the date of agreement on the price (CAM 14-105.2).*	
c. *Accurate, complete, and current data were not submitted or disclosed to the contracting officer or one of the authorized representatives of the contracting officer and that these individuals did not have actual knowledge of such data or its significance to the proposal.* Discuss the knowledge of the contracting officer regarding the data and the data available to the contractor. Describe how the audit team was able to confirm that the contractor did not submit the data (e.g., no record of submission in contractor or Government proposal files, confirmation memorandum) and that the Government had no actual knowledge of the data, e.g., PNM, Government contract files, technical evaluation report, contractor's submission, proposal audit report, audit working papers, etc. (CAM 14-105). *Note: If the contractor claims it disclosed the data, obtain evidence to corroborate the statement (e.g., review of the negotiations log, email correspondence, etc.).*	

H-1 Subcontracts	**WP Reference**
d. *The Government relied on the defective data in negotiating with the contractor.* Identify the certified cost or pricing data the Government relied on in negotiating with the contractor. Discuss how reliance was confirmed, such as reconciling the defective cost or pricing data to final negotiated amounts in the PNM (or supporting documents) and sending a confirmation memorandum to the contracting officer. Reference appropriate documents (e.g., PNM, confirmation memorandum, etc.). See CAM 14-111. *Note: Reconciling the cost or pricing data can be performed directly to specific negotiated amounts, element of cost, or total costs (e.g., subcontractor, direct material, labor hours/amounts, etc.) or other documents referenced in the PNM.*	
e. *The Government's reliance on the defective data caused an increase in the contract price.* Specifically state the amount (calculated in the prior audit step) by which the contract price was increased as a result of the Government's reliance on the defective data. Explain how the Government's reliance on the defective data caused an increase in price (e.g., the defective data was the basis for the Government's position used to negotiate the final contract price).	

MASTER AUDIT PROGRAM

I-1 Indirect Rates & Factors	**WP Reference**
Version 13.2, dated Jun 2025	
1. Based on the risk identified, refine overrun/underrun analysis using the baseline and actual indirect rates incurred to determine if significant variances exist to determine if additional effort is warranted based on efforts that would need to be expanded.	
2. For rates with significant variances, compare baseline and actual pools, and bases by year. Identify the major cost groups most contributing to the variance and obtain an explanation. Assess whether the unexpected variance was the result of an error in judgment or the omission of relevant facts (e.g., planned sale of equipment resulting in a decrease in depreciation, etc.). For those unexpected events that are fact-based, obtain and evaluate records pertaining to the event and determine if the contractor knew of the event prior to the certification date. *Note: Significant underruns may exist if this pricing action had a significant impact on the business base and the impact was not disclosed.*	
3. Compare the baseline rates and factors to those included in the contractor's bidding rate submission or rate agreement in effect as of the date of price agreement and evaluate significant variances to determine the cause.	
4. If management approved rates and factors changed shortly after the certification date, compare the rates to the baseline rates and identify the events and facts causing the variance. If the contractor was aware of these facts prior to the certification date, determine if the contractor properly disclosed them.	
5. If historical data was used in the certified cost or pricing data under evaluation, perform tests of details to provide reasonable assurance the historical data was in compliance with 10 U.S.C. Chapter 271 (*or if non-DoD, 41 U.S.C. Chapter 35*) (i.e., accurate, complete and current). In determining the need for test of details, document and reference any pertinent test of details previously completed in other assignments.	
6. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification (CAM 14-115).	
7. Summarize the preliminary results. *Note: Ensure that you have sufficient evidential matter to conclude that the contractor **did or did not** disclose the most accurate, complete and current cost or pricing data as of the certification date.*	

I-1 Indirect Rates & Factors	**WP Reference**
8. For identified potential defective pricing, discuss with the supervisor to confirm the finding. Explain the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective. *Note: The data identified as defective must also fit the definition of cost or pricing data. The certification required by 10 U.S.C. Chapter 271: Truthful Cost or Pricing Data (Truth in Negotiations) does not constitute a representation as to the accuracy of the contractor's judgment on the estimate of future costs or projections. It only applies to the data upon which the judgment or estimate was based. The distinction between fact and judgment should be clearly understood.*	
9. Verify that DCAA did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare and send a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
10. Calculate the recommended price adjustment using the appropriate baseline indirect costs and the associated costs and profit (*CAM 14-114.3d*). *Note: The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).*	
11. Prepare a draft report note and establish *the five elements of defective pricing*. *Note: Establishing the five elements of defective pricing is necessary to support the recommended price adjustment above and provides the contracting officer with the information necessary to adjust the contract price for defective cost or pricing data (CAM 14-102b).*	
a. *The information in question fits the definition of cost or pricing data.* Identify the factual data in question and provide the relevant parts of the FAR 2.1 definition of cost or pricing data. Explain how the data in question fits the definition (CAM 14-104.2).	
b. *Accurate, complete, and current data existed and were reasonably available to the contractor before the date of agreement on the price.* Provide the date that the accurate, complete, and current data was reasonably available to the contractor and the date of agreement on the price (or, if applicable, the other date agreed upon between the parties). Explain how you determined the data existed and was reasonably available prior to the date of agreement on price.	

I-1 Indirect Rates & Factors	**WP Reference**
Note: Emphasize that the availability date was prior to the date of agreement on the price (CAM 14-105.2).	
c. *Accurate, complete, and current data were not submitted or disclosed to the contracting officer or one of the authorized representatives of the contracting officer and that these individuals did not have actual knowledge of such data or its significance to the proposal.* Discuss the knowledge of the contracting officer regarding the data and the data available to the contractor. Describe how the audit team was able to confirm that the contractor did not submit the data (e.g., no record of submission in contractor or Government proposal files, confirmation memorandum) and that the Government had no actual knowledge of the data, e.g., PNM, Government contract files, technical evaluation report, contractor's submission, proposal audit report, audit working papers, etc. (CAM 14-105). *Note: If the contractor claims it disclosed the data, obtain evidence to corroborate the statement (e.g., review of the negotiations log, email correspondence, etc.)*	
d. *The Government relied on the defective data in negotiating with the contractor.* Identify the certified cost or pricing data the Government relied on in negotiating with the contractor. Discuss how reliance was confirmed, such as reconciling the defective cost or pricing data to final negotiated amounts in the PNM (or supporting documents) and sending a confirmation memorandum to the contracting officer. Reference appropriate documents (e.g., PNM, confirmation memorandum, etc.). See CAM 14-111. *Note: Reconciling the cost or pricing data can be performed directly to specific negotiated amounts, element of cost, or total costs (e.g., subcontractor, direct material, labor hours/amounts, etc.) or other documents referenced in the PNM.*	
e. *The Government's reliance on the defective data caused an increase in the contract price.* confirmation memorandum to the contracting officer. by which the contract price was increased as a result of the Government's reliance on the defective data. Explain how the Government's reliance on the defective data caused an increase in price (e.g., the defective data was the basis for the Government's position used to negotiate the final contract price).	

J-1 Other Direct Costs (ODC)	**WP Reference**
Version 13.2, dated Jun 2025	
1. If necessary, refine your overrun/underrun analysis using the baseline extended costs to actual or estimates at completion (EAC) extended costs at a more detailed level (e.g., travel, consultant) identify any significant variances. Select items with significant variances for evaluation and develop appropriate detailed audit steps.	
2. If historical data was used in the certified cost or pricing data under evaluation, perform tests of details to provide reasonable assurance the historical data was in compliance with 10 U.S.C. Chapter 271 (*or if Non-DoD, 41 U.S.C. Chapter 35*) (i.e., accurate, complete, and current). In determining the need for tests of details, document and reference any pertinent test of details previously completed in other assignments.	
3. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification (CAM 14-115).	
4. Summarize the preliminary results. *Note: Ensure that you have sufficient evidential matter to conclude that the contractor did or **did not** disclose the most accurate, complete and current cost or pricing data as of the certification date.*	
5. For identified potential defective pricing, discuss with the supervisor to confirm the finding. Explain the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective. *Note: The distinction between fact and judgment should be clearly understood. The data identified as defective must also fit the definition of cost or pricing data. The certification required by 10 U.S.C. Chapter 271: Truthful Cost or Pricing Data (Truth in Negotiations) does not constitute a representation as to the accuracy of the contractor's judgment on the estimate of future costs or projections. It only applies to the data upon which the judgment or estimate was based.*	
6. Verify that DCAA did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
7. Calculate the recommended price adjustment using the appropriate baseline of other direct costs and the associated costs and profit (*CAM 14-114.3d*). *Note: The working papers must establish that the five elements of defective pricing have been met (CAM 14-102b).*	

J-1 Other Direct Costs (ODC)	**WP Reference**
8. Prepare a draft report note and establish *the five elements of defective pricing*. *Note: Establishing the five elements of defective pricing is necessary to support the recommended price adjustment above and provides the contracting officer with the information necessary to adjust the contract price for defective cost or pricing data (CAM 14-102b).*	
a. *The information in question fits the definition of cost or pricing data.* Identify the factual data in question and provide the relevant parts of the FAR 2.1 definition of cost or pricing data. Explain how the data in question fits the definition (CAM 14-104.2).	
b. *Accurate, complete, and current data existed and were reasonably available to the contractor before the date of agreement on the price.* Provide the date that the accurate, complete, and current data was reasonably available to the contractor and the date of agreement on the price (or, if applicable, the other date agreed upon between the parties). Explain how you determined the data existed and was reasonably available prior to the date of agreement on price. *Note: Emphasize that the availability date was prior to the date of agreement on the price (CAM 14-105.2).*	
c. *Accurate, complete, and current data were not submitted or disclosed to the contracting officer or one of the authorized representatives of the contracting officer and that these individuals did not have actual knowledge of such data or its significance to the proposal.* Discuss the knowledge of the contracting officer regarding the data and the data available to the contractor. Describe how the audit team was able to confirm that the contractor did not submit the data (e.g., no record of submission in contractor or Government proposal files, confirmation memorandum) and that the Government had no actual knowledge of the data, e.g., PNM, Government contract files, technical evaluation report, contractor's submission, proposal audit report, audit working papers, etc. (CAM 14-105). *Note: If the contractor claims it disclosed the data, obtain evidence to corroborate the statement (e.g., review of the negotiations log, email correspondence, etc.).*	
d. *The Government relied on the defective data in negotiating with the contractor.* Identify the certified cost or pricing data the Government relied on in negotiating with the contractor. Discuss how reliance was confirmed, such as reconciling the defective cost or pricing data to final negotiated amounts in the PNM (or supporting documents) and sending a	

J-1 Other Direct Costs (ODC)	WP Reference
reference appropriate document (e.g., PNM, confirmation memorandum, etc.). See CAM 14-111. *Note: Reconciling the cost or pricing data can be performed directly to specific negotiated amounts, element of cost, or total costs (e.g., subcontractor, direct material, labor hours/amounts, etc.) or other documents referenced in the PNM.*	
e. *The Government's reliance on the defective data caused an increase in the contract price.* Specifically state the amount (calculated in the prior audit step) by which the contract price was increased as a result of the Government's reliance on the defective data. Explain how the Government's reliance on the defective data caused an increase in price (e.g., the defective data was the basis for the Government's position used to negotiate the final contract price).	

MASTER AUDIT PROGRAM

K-1 Offsets	**WP Reference**
Version 13.2, dated Jun 2025	
Although audit procedures should not be specifically designed to seek out offsets, the auditor should notify the contractor and the contracting officer in writing of potential offsets. Until the contractor provides the required certification for its offset submission including offsets found by the auditor, DCAA should neither adjust the findings nor expend additional resources on the alleged offsets.	
If the offsets are **certified**, develop audit procedures and evaluate them in the associated section of the audit program *(*CAM 14-115). Prepare draft report note(s) for offsets in working paper K. Coordinate with your supervisor and provided the PCO the offsets and request that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	

MASTER AUDIT PROGRAM

A-1 Concluding Steps	**WP Reference**
Version 13.2, dated Jun 2025	
1. Determine the status of any requested assist audits and/or requests for specialist assistance. See CAM 10-208.5 for guidance on qualifying the report if the requested assistance has not been received.	
2. Summarize and document the results of audit.	
3. Obtain supervisory/management review and approval of the working papers and draft audit report before discussions with the contractor.	
4. If suspicion is raised that fraud or other illegal acts have occurred, refer such suspicion by completing a DCAA Form 2000. Do not release or disclose to the contractor information relating to a matter referred for investigation. (CAM 14-118 and 4-700).	
5. Brief the contracting officer on the results of audit and invite to the exit conference.	
6. If the examination is of a subcontractor, notify the prime contractor auditor about the forthcoming report.	
7. After management approval, conduct and document an exit conference with the contractor in accordance with CAM 4-304.3 and CAM 14-119b.	
8. Draft audit report in accordance with CAM Chapter 10.	
9. Complete the administrative working papers.	
10. Update the perm file as appropriate.	
11. Submit the working paper package and draft report to the supervisor/manager for final review and processing.	