

MASTER AUDIT PROGRAM

<b>Activity Code 17200</b>	<b>Claim Audit, Delay – Disruption</b>
<b>Version 10.1, dated Mar 2024</b>	
<b>B-1</b>	<b>Planning Considerations</b>
<b>Type of Service - Attestation Examination Engagement</b>	
<b>Audit Specific Independence Determination</b>	
<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>	
<b>Purpose and Scope</b>	
<p>1. This standard audit program assists the audit team in planning and performing the review of the contractor’s delay or disruption proposal or claim. (<b>Note:</b> If a contractor’s submission seeks recovery of other adjustments not related to a delay or disruption caused by asserted Government action/inaction such as changed conditions, use the 17200_AP_OTHER audit program.) The primary purpose of the audit is to review the quantum (amount of the monetary adjustment) aspect of an equitable adjustment to determine if the proposed or claimed costs, resulting from an asserted Government caused delay or disruption, comply with the terms of the contract and DFARS 252.243-7001, Pricing of Contract Modifications (or similar supplemental regulation clause). This audit team should evaluate the reasonableness, allocability, and allowability of proposed or claimed costs and determine if the contractor experienced any losses, such as increased costs or unabsorbed overhead, as a result of the asserted delay or disruption.</p>	
<p>2. The focus should be on the isolation of incremental cost increases (reasonable costs that would not have been incurred “but for” the asserted Government action or inaction) for which the contractor can demonstrate a logical causal connection to Government-directed-out-of-scope work or other Government actions or inactions. Additionally, consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.</p>	
<p>3. The contractor’s entitlement to an equitable adjustment is a legal determination on whether the contractor has been impaired by Government action or inaction. Ensure audit steps address the contractor’s compliance with contract terms and regulations and do not reference</p>	

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<p>“entitlement.” Meaningful observations bearing solely on entitlement should be conveyed to the contracting officer in the report as an Appendix, Report on Other Matters.</p>
<p>4. The audit team should adjust the audit program based on the documented risk assessment and reflect an understanding within the audit team as to the scope required. The program steps should be tailored, as appropriate.</p>
<b>Planning Considerations</b>
<p>1. An equitable adjustment may be submitted as a proposal or a claim under the disputes clause of the contract. A request for equitable adjustment (REA) proposal is generally submitted under DFARS 252.243-7002, Requests for Equitable Adjustment, to request a contract modification in price and/or performance period necessitated by an unplanned Government change in the contract terms or conditions.</p> <p>A claim is generally submitted under FAR 52.233-1, Disputes, which defines a claim as a written demand/assertion seeking, as a matter of right, payment of money in a sum certain, an adjustment or interpretation of contract terms, or other relief arising under or related to the contract, submitted to the contracting officer for a decision. A claim submitted under FAR 52.233-1 may also be referred to as a CDA claim (i.e., a claim submitted under the Contracts Disputes Act).</p> <p>The certification requirement is different for an REA vs. a claim. When the aggregate amount (additions plus deletions) of an REA exceeds the simplified acquisition threshold defined in FAR 2 and FAR 13.2, the certification requirement is found in DFARS clause 252.243-7002. A CDA claim requires two additional elements of the certification as specified in FAR 52.233-1(d).</p>
<p>2. Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, etc.</p>
<b>References</b>
<p>The following references should be reviewed prior to starting the audit:</p>
<p>1. CAM Chapter 12, Auditing Contract Termination Delay Disruption and Other Price Adjustment Proposals or Claims</p>
<p>2. FAR 33, Protests, Disputes, and Appeals</p>
<p>3. FAR 52.233, Protests, Disputes and Appeals clauses, as applicable</p>
<p>4. FAR 43, Contract Modifications</p>
<p>5. FAR 52.236-2, Differing Site Conditions</p>

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6. FAR 52.242-14, Suspension of Work
7. FAR 52.242-15, Stop-Work Order
8. FAR 52.242-16, Stop-Work Order -- Facilities
9. FAR 52.242-17, Government Delay of Work
10. FAR 52.243, Changes clauses as applicable
11. For construction contracts, FAR 31.105, Construction and Architect-Engineer Contracts
12. For construction contracts, DFARS 252.236-7000, Modification of Proposals – Price Breakdown
13. DFARS 252.243-7001, Pricing of Contract Modifications
14. DFARS 252.243-7002, Requests for Equitable Adjustment
15. CAM Appendix B, Special Assistance

<b>B-1 Preliminary Steps</b>	
<b>Version 10.1, dated Mar 2024</b>	<b>WP Reference</b>
<b>INITIAL COMMUNICATIONS AND ADEQUACY</b>	
<p>1. Review the audit request for any special requirements. Communicate with the requestor as soon as practical regarding the following:</p> <ul style="list-style-type: none"> <li>a. Gather background information on the REA or claim. Discuss the nature of dispute with the contracting officer (and Government trial attorney, if appropriate). Obtain an understanding of the Government’s position on the asserted delay or disruption. Document any disputes between the contractor and the Government concerning asserted inaccuracies in technical specifications or additional requirements that may have a significant effect on labor, materials, and other proposed or claimed costs.</li> <li>b. Ascertain any known concerns impacting the audit.</li> <li>c. Discuss the availability of specialist assistance. Consider where specialist assistance is needed in areas such as:               <ul style="list-style-type: none"> <li>(1) Evaluating the reasonableness of factors used for any proposed or claimed loss of efficiency or learning;</li> <li>(2) Evaluating asserted days of delay and additional days of extended performance;</li> <li>(3) Evaluating excess material or labor to determine the cost realism of the bid or negotiated cost elements;</li> <li>(4) Interpreting work schedules (CAM 12-805.4d);</li> <li>(5) Interpreting and using of Corps of Engineers (COE) equipment schedules (CAM 12-802.5c); and,</li> </ul> </li> </ul>	

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<p>(6) Using the total cost or modified total cost method (CAM 12-704).</p> <p>d. Discuss the audit scope to address profit (Section L) and ascertain the contracting officer’s understanding on whether the subject matter should include profit (i.e., subject to further adjustment during settlement/negotiations). If profit will not be included in the audit scope, document the conversation with the contracting officer and exclude the audit steps from the audit plan.</p> <p>e. If not provided with the request for audit, request the contracting officer provide a list of any significant contract events as required by FAR 43.204(b)(5). If one is not available, prepare a “Chronology of Significant Events.” (OAG).</p> <p>f. Discuss the contractor’s certification as an REA vs. a claim and request relevant facts such as earlier submissions or other related REAs or claims.</p> <p>g. Ascertain the reasons for any scope restrictions or limitations, if applicable. If restrictions or limitations substantially diminish the value of the audit, advise the requestor (and the Government trial attorney, if any) and propose mitigating actions (e.g., additional procedures, time extension, etc.).</p>	
<p>2. Review the contractor’s REA or claim and supporting schedules using OAG Delay Claim Audit – Screening Checklist for Delay Claims or Proposals to determine if it is adequate to be audited.</p>	
<p>3. Perform mathematical verification of the REA or claim and supporting data.</p>	
<p>4. Notify the appropriate contracting officer of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement letter once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.</p>	
<p>5. If the submission is a claim and has been filed in a Board of Contract Appeals or the Court of Federal Claims, notify the regional or CAD Technical Specialist and the assigned DCAA Legal (DL) attorney.</p> <p><i>Note: If the appeal has been assigned to a Government trial attorney, do not accept audit requests regarding the claim without first notifying DL. Occasionally when an appeal has been filed, the contractor attorneys will insist all requests for documentation be made through them or through the formal discovery process. This could significantly slow down the flow of information and should be considered in the planning process. The DL attorney will assist the audit team should this occur.</i></p>	
<p>6. If auditing a subcontract:</p> <p>a. Coordinate with the DCAA cognizant office over the higher-tier contractor to ensure that the Government will derive a benefit from the</p>	

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<p>audit, and the audit would not result in a duplication of effort. Specifically, request information regarding the status and conclusions of effort already performed at the higher-tier contractor by the cognizant DCAA office or higher-tier contractor.</p> <p>b. Advise the subcontractor that the audit report may be made available to the prime contractor or higher-tier contractors. Determine at the start of the audit whether the subcontractor will have any restrictions or reservations on the release of the audit report to higher-tier contractors. Obtain the subcontractor's written consent for release of the audit report or reason(s) for not authorizing release. If there are restrictions to the release of data, promptly notify the higher-tier contract auditor or appropriate contracting authority to determine whether the audit should be performed. The contracting officer, working with the higher-tier contractor, may be able to remove the subcontractor's restrictions or reservations. Follow the reporting guidance in CAM 10-210.4 if the audit is completed at the request of the contracting officer despite the subcontractor's restrictions or reservations.</p>	
<p>7. Conduct an entrance conference with the contractor and obtain a walk-through of the REA or claim to gain an understanding of the basis of each cost element, the related supporting documentation, and relevant policies/procedures and processes related to significant cost elements. Invite the contracting officer.</p> <p>a. Make inquiries to fully understand the contractor's position regarding the nature of the delay/disruption and the extent of asserted Government responsibility.</p> <p>b. Make inquiries to fully understand the methodology used to develop the price adjustment. Determine if different methodologies were used for different cost elements, or whether the contractor used methodologies that differ from its normal estimating and accounting procedures.</p> <p>(1) If the contractor used the total cost method or modified total cost method for one or more of the REA or claim elements, plan audit procedures (WP K-1) to review the Total Cost or Modified Total Cost Method. (CAM 12-704)</p> <p>(2) Determine if costs incurred related to the delay/disruption were segregated in the contractor's records. If the contractor's accounting system does not identify and segregate costs by project and contract, has the contractor summarized the incurred costs from pertinent source documents to fully disclose the actual costs applicable to the contract and the REA or claim?</p> <p>(3) Determine the extent that incurred costs related to the delay or disruption were used in the pricing of the adjustment.</p> <p>(4) Determine the extent that estimates were used in the pricing of the</p>	

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<p>adjustment. If estimates were used, to what extent were they based on incurred costs?</p> <p>c. Determine if the REA or claim includes costs covered by a termination proposal (CAM 12-103.b).</p> <p>d. Obtain relevant supporting data, such as budgets and actuals for indirect costs (including allocation bases and fixed and variable costs); direct costs, including labor hours and costs, material costs, and subcontracts; audited financial statements, tax returns, and union agreements for the entire performance period of the contract; and documentation of any employee lay-offs asserted to be due to the asserted delay or disruption.</p> <ul style="list-style-type: none"><li>• Prepare a comparative analysis of the financial data (budgets vs. actuals) to assist in evaluating the reasonableness of an assertion that increased costs have been incurred.</li><li>• Review data related to the contractor's assertions (e.g., delay, differing site conditions, etc.).</li></ul> <p>e. If external legal or financial consultants prepared the REA or claim, obtain a copy of their supporting working papers if required to demonstrate the basis of the submitted cost elements. If the contractor asserts the attorney-client privilege, refer to CAM 1-504.4.g and consult with DCAA-DL for assistance as needed.</p> <p>f. When REAs or claims relate to multiple contract issues, contractors may summarize costs by contract issue instead of by cost element. In these cases, perform procedures to determine if costs are overstated or duplicated. Compare total costs proposed or claimed for each significant cost element to the job cost ledger and/or bid/budget for the cost element. Request the contractor's explanation for significant differences.</p>	
<p>8. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <p>a. Their knowledge of any actual, suspected, or alleged fraud or noncompliance with laws and regulations affecting the period of time corresponding to the subject matter under audit (AT-C 205.33)</p> <p>b. If any specialists (internal or external) were used in the preparation of the subject matter. If yes, have the contractor explain how the specialists were used in the preparation of the subject matter. (AT-C 205.16)</p> <p>c. Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject</p>	

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<p>matter. (GAGAS 7.14)</p> <p>d. The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13)</p> <p><i>Note: Specifically document in the working papers; the inquiries and the corresponding responses as well as how the responses affect the performance of the engagement.</i></p>	
<p>9. If the REA or claim includes significant subcontract costs, request assist audits, as necessary.</p>	
<p>10. Review the contracting officer’s contract files for pertinent documents, such as relevant change orders, detailed field reports, and job process reports.</p> <p>a. Review prior and current contract price adjustments for duplication of cost in the subject price adjustment.</p> <p>b. Review contract modifications for release/waiver clauses related to the specific change order or previously compensated change order. Determine if the contracting officer issued a supplemental agreement whereby the contractor released the Government from liability under the contract for further equitable adjustments relating to the same facts and circumstances giving rise to the modification. Whether or not prior contract modifications relating to the same facts and circumstances contain a contractor’s waiver, question costs in the current proposal or claim that duplicate costs reimbursed under prior contract modifications. (See FAR 43.204 and CAM 12-604.)</p> <p>Note that some contract modifications may provide the contractor with nonmonetary compensation, such as additional time/days or an extended performance period. Consider if the contractor has proposed or claimed costs related to time that has already been compensated</p> <p>c. Obtain and review any notices issued under FAR 49.607 and applicable contractor responses for information relevant to the delay/disruption. Note, if the contractor fails to make progress or fails to perform contractually, the Government may issue a “cure notice” giving the contractor a specified amount of time to fix the defect.</p>	
<p>11. Using the contractor-prepared contract brief, if available, and the contract and modifications, identify the period of performance, total contract amount, and all pertinent FAR clauses or provisions. Validate the accuracy of the contractor-prepared brief before placing reliance. If no reliable contractor-prepared brief exists, brief the contract using Claim Audit-Contract Brief, WP 31.</p>	

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<ul style="list-style-type: none"> <li>a. Determine if the contract contains the Pricing Adjustments clause (DFARS 252.243-7001 or similar supplemental regulation) that requires costs in the REA or claim to comply with FAR Part 31.</li> <li>b. Determine if the contract is CAS-covered. Delay and disruption REAs or claims commonly arise under fixed-price contracts and frequently under sealed-bid contracts or contracts otherwise exempt from CAS or FAR Part 31.</li> <li>c. For manufacturing/supply contracts, determine if the contract includes First Article Testing provisions (FAR 52.209-4(c) and FAR 209-3) that limit the costs for retests to be borne by the contractor. If so, request related information from the contracting officer. If unrelated to the current proposal or claim, any costs that exceed the contract limits may be disallowed.</li> <li>d. Determine if the contract and subsequent modifications contain a formula or basis for computing the price adjustment. If yes, verify the contractor used this formula to develop the price adjustment.</li> </ul>	
<p>12. If an audit of the initial pricing proposal was performed, review the proposal and the audit report for any information that may impact the subject REA or claim.</p>	
<p>13. Review the permanent file to determine if previous audits included findings and recommendations related to the subject matter under audit. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures:</p> <ul style="list-style-type: none"> <li>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 noncompliances) 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)</li> <li>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit.</li> </ul>	
<p>14. Review the contractor's correspondence and contract files for relevant documents. Obtain a list of all outstanding and recently settled REA or claim adjustments on other contracts that relate to the period of performance of the subject contract.</p>	
<p>15. Review the permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit. If there are no other studies or audits, document that information and perform the procedures below.</p>	



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<p>a. Ask contractor management if internal audits were performed. If yes, request a summary listing of the internal audits to assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.</p> <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Document the results of the determination in writing.</li> <li>• 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.</li> <li>• If assignment is at a non-major contractor and the FAO does not have a designated POC, request the contractor provide access to the internal audit reports.</li> <li>• The request, issued by the FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers.</li> </ul> <p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> <li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li> <li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li> </ul> <p>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).</p> <p>e. Determine if additional audit procedures are needed to respond to identified risk.</p>	
<p>16. Review the contractor's Disclosure Statement (if applicable) in effect for the period applicable to the proposed or claimed costs and the results of prior reviews. Tailor the audit program to address any audit leads and to determine if accounting for significant cost elements in the REA or claim is consistent with established/disclosed practices and complies with FAR Part 31 and the Cost Accounting Standards, if applicable. A delay or</p>	

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<p>disruption REA or claim may include as direct charges costs which would have been indirect. In such cases, document the justification for the departure from established cost accounting practices and tailor audit procedures accordingly.</p>	
<p>17. Obtain and document an understanding of contractor internal controls relevant to the audit. Auditors may obtain a significant portion of this understanding during the walkthrough.</p>	
<p>18. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential material noncompliances, whether due to error or fraud, that could affect the subject matter. Request the regional or CAD Technical Specialist to attend. The discussion should include:</p> <ul style="list-style-type: none"> <li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),</li> <li>• relevant aspects of the contractor and its environment,</li> <li>• risk of material noncompliance due to fraud (e.g., the extent of financial incentives, pressures to meet budgetary and contractual commitments, and opportunities to commit and conceal fraud). Consider the fraud risk factors and scenarios presented in the DoD OIG's webpage: <a href="#">Fraud Detection Resources for Auditors</a>. Copy link and paste into web browser,</li> <li>• other known factors that increase the risk of material noncompliance with laws and regulations, and</li> <li>• the audit team's understanding of relevant key internal controls.</li> </ul> <p>Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect the subject matter, and design audit procedures to respond to the increased risk of material noncompliance.</p> <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of material misstatement and noncompliance due to error or fraud.</p>	
<p>19. Review and discuss with your supervisor the overall results of the risk assessment and the planned audit scope, including the detailed audit steps. Tailor the audit program steps as needed to obtain sufficient, appropriate evidence to provide a reasonable basis for the conclusion expressed in the audit report. Finalize the milestone plan.</p> <p>Obtain and document supervisory approval of the risk assessment, the planned scope of examination for each audit area documented in WP B and the -01 WPs.</p>	

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20. Send a final acknowledgement memorandum to the contracting officer and a notification letter to the contractor to formally notify them of the audit and expected completion date in accordance with CAM 4-104.b and CAM 4-302.3.	
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C-1	Labor Costs	WP Reference
<b>Version 10.1, dated Mar 2024</b>		
1.	If the costs for the year(s) involved in the REA or claim have previously been audited, reconcile the costs with the contractor's books and audited costs.	
2.	<p>Perform procedures to determine the cause, and the allowability, allocability and reasonableness of proposed or claimed labor costs. Determine if the contractor has demonstrated a logical causal connection to Government-directed-out-of-scope work or other Government actions or inactions. Consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.</p> <p>a. Compare the bid or negotiated labor costs to actual cost data, exclusive of that related to the delay to determine a possible loss on the contract. Verify the actual cost data to the contractor's accounting books and records, i.e., job cost reports, labor distribution reports, payroll reports, timesheets, and payment. See audit program WP J-1 regarding construction contract labor. Specialist assistance may be required to evaluate any significant differences in labor hours. Proposed or claimed labor costs that were not included in the bid may indicate intentional underbidding (FAR 3.501, Buying-in). Question costs unrelated to the delay/disruption, those underestimated in the bid, or those omitted costs, e.g., labor categories, functions, or tasks that should have been in the original bid.</p> <p>b. Verify maintenance or standby labor hours to timesheets or other supporting documentation and labor distribution reports. Determine if the standby labor was diverted to other contracts or other production usage and that the decision to retain standby labor was reasonable in the circumstances. For instance if other work was available, determine why "idle labor" was not employed on such work.</p> <p>c. Determine if the proposed or claimed direct labor is recorded on the contractor's accounting records separate from the indirect labor, supported by timesheets or other accounting records. Review the basis for any estimates.</p> <p>d. If indicated by the risk assessment, test the reasonableness of labor rates or compensation in accordance with FAR 31.205-6.</p> <p>e. Determine if any of the submitted costs (regular/overtime labor) are due to (i) a change in scope or specifications, (ii) the normal increase that often occurs as a contract "tails off", or (iii) other factors unrelated to the asserted delay or disruption. Specialist assistance may be required to make a determination of allocability and compliance with contract terms.</p> <p>f. Review documentation of communications or meetings between the contractor and labor unions related to the delayed contract. Review</p>	

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<p>union agreements covering the delay period for possible adverse impact resulting from a decrease in work.</p> <p>g. Determine if the contractor laid-off employees as a result of the asserted Government caused delay or disruption. Review relevant documentation (e.g., timesheets) as to the date of discharge and possible recall.</p>	
<p>3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	
<p>4. Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.</p>	

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D-1	Material Costs	WP Reference
<b>Version 10.1, dated Mar 2024</b>		
1.	Reconcile the costs that have previously been audited to the contractor's books and audited costs.	
	<ul style="list-style-type: none"> <li>a. Perform procedures to determine the cause and the allowability, allocability and reasonableness of proposed or claimed material costs. Determine if the contractor has demonstrated a logical causal connection to Government-directed-out-of-scope work or other Government actions or inactions. Consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.</li> <li>b. Compare the bid or negotiated material costs to actual cost data, exclusive of that related to the delay to determine a possible loss on the contract. Verify the actual cost data to the contractor's accounting books and records, i.e., job cost reports, purchase orders, quotes, invoices, and payment. Specialist assistance may be required to evaluate any significant differences between bid and acquired material quantities. Proposed or claimed material costs that were not included in the bid may indicate intentional underbidding (FAR 3.501, Buying-in). Question costs unrelated to the delay/disruption or those underestimated in the bid.</li> <li>c. Identify price variances between the estimated and the actual unit prices of material items. Trace material costs to purchase invoices. Determine if any advance agreements protect the contractor from cost growth; if so, verify proposed prices are consistent with the agreements. Determine if the contractor obtained competitive quotes or performed analysis of bids.</li> <li>d. Identify quantity variances between the estimated and the actual quantities of material items. Determine if the change in number of items used was the result of loss due to scrap and spoilage, deterioration over time, theft, inadequacy of initial estimate or other causes, any of which may or may not arise from Government actions or inactions. Specialist assistance may be required.</li> <li>e. Evaluate changes in make-or-buy decisions subsequent to contract award to determine their impact on costs not caused by the delay. Consider changes to proposed manufacturing processes that result in increased costs unrelated to the subject delay or disruption.</li> </ul>	
2.	Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
3.	Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.	

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<b>E-1</b>	<b>Subcontracts</b>	<b>WP Reference</b>
<b>Version 10.1, dated Mar 2024</b>		
1.	Reconcile the costs that have previously been audited to the contractor's books and audited costs.	
2.	Follow up with cognizant FAOs for subcontractors identified in WP section B to assure timely receipt of assist audit reports for incorporation in the audit report. If there will be a delay in the receipt of the assist audit report, coordinate with the contracting officer to determine if the results can be forwarded directly to the contracting officer after issuance of the prime report.	
3.	Forward any pertinent data such as lien releases and correspondence to the subcontract auditor.	
4.	Review the prime contractor's correspondence for legal documents related to subcontractors. A review of the files may disclose that the prime contractor is holding the subcontractor liable for increased costs as a result of delays or disruptions caused by the subcontractor, or that the subcontractor waived its rights at some point. If the contractor asserts the attorney-client privilege, refer to CAM 1-504.4.g and consult with DCAA-DL for assistance as needed.	
5.	Brief the contract between the prime and the subcontractor. Determine if an exculpatory clause limits the prime contractor's liability to the subcontract price and if the prime contractor's right to recover damages is limited. A deviations and substitutions clause may limit the liability of the prime for any deviations or substitutions not approved by the Government.	
6.	For construction contracts, determine if any of the original subcontractors defaulted and whether the prime received or will receive payments from the defaulting subcontractor's bonding company (surety). If so, determine if the prime contractor has properly credited the proposed or claimed costs.	
7.	Compare the bid or negotiated subcontract costs to actual cost data, exclusive of that related to the asserted delay or disruption to determine a possible loss on the contract. Verify the actual cost data to the contractor's accounting books and records, i.e., job cost reports, billings/invoices, and payment. Specialist assistance may be required to evaluate any significant differences in the subcontract scope of work. Proposed or claimed subcontract costs that were not included in the bid may indicate intentional underbidding (FAR 3.501, Buying-in). Question costs unrelated to the asserted change or those underestimated in the bid.	
8.	Verify if the prime contractor has paid the subcontractor. If the prime is withholding payment to the subcontractor pending resolution of its own proposal or claim with the Government, include this information in the audit report note.	

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

<b>F-1</b>	<b>Other Direct Costs</b>	<b>WP Reference</b>
<b>Version 10.1, dated Mar 2024</b>		
1.	Reconcile the costs that have previously been audited to the contractor's books and audited costs.	
2.	Perform procedures to determine the cause, reasonableness, allowability and allocability of proposed or claimed other direct costs. Determine if the contractor has demonstrated a logical causal connection to Government-directed-out-of-scope work or other Government actions/inactions. Also, consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.	
3.	Determine if the contractor's proposed or claimed other direct costs (e.g. travel costs, equipment charges/rental (see also audit program WP J-01), etc.) are allocable to the contract and were caused by the asserted delay or disruption.	
4.	Compare the bid or negotiated other direct costs to actual cost data, exclusive of that related to the asserted change, to determine a possible loss on the contract. Verify the actual cost data to the contractor's accounting books and records, i.e., job cost reports, quotes, invoices, and payment. Determine if the contractor obtained any competitive quotes or performed any analysis of the vendors' bids. Proposed or claimed costs for items that were not included in the bid may indicate intentional underbidding (FAR 3.501, Buying-in). Question costs unrelated to the asserted delay or disruption or those underestimated/omitted from the bid.	
5.	Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
6.	Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.	



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G-1	Indirect Costs	WP Reference
<b>Version 10.1, dated Mar 2024</b>		
1.	Reconcile the costs that have previously been audited to the contractor's books and audited costs.	
2.	<p>Perform procedures to determine the cause, reasonableness, allowability, and allocability of proposed or claimed indirect costs. Determine if the contractor has demonstrated a logical causal connection to Government-directed-out-of-scope work or other Government actions/inactions. Consider offsets to cost increases whereby certain costs were not incurred because work was replaced with different work.</p> <ul style="list-style-type: none"> <li>a. Determine if indirect expenses allocated to direct costs associated with delay are allowable and comply with the contractor's disclosed/established cost accounting practices. Verify the indirect costs to the contractor's accounting books and records, i.e., general ledger, invoices, and payment.</li> <li>b. Determine if indirect expenses reclassified as direct are appropriate to the circumstances if they are not in accordance with the cost accounting system.</li> <li>c. Analyze indirect costs associated with "standby" direct costs to determine that the underlying causal-beneficial relationship is still valid. For example, "standby" direct labor requires no supervision and the related supervisory labor may not be in a standby status. If such a case exists, the indirect costs applicable to standby labor should be adjusted accordingly.</li> <li>d. Determine that costs are not proposed or claimed both as direct costs and through an overhead rate. Contractors sometimes include expenses normally included in overhead as direct charges when work on a contract ceases during a delay. Items such as occupancy costs, insurance, equipment rental or depreciation may continue, and should be treated as ODC when this happens. Indirect cost pools should be adjusted for these items as well as indirect costs treated as ODC in prior claims.</li> <li>e. Determine if the contractor's indirect expense rates were properly calculated and applied.</li> <li>f. Determine if the contractor identified and excluded unallowable indirect expenses from the indirect expense pools.</li> <li>g. Determine if the contractor demonstrated the causal/beneficial relationship between indirect expenses and the allocation base.</li> </ul>	
3.	Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
4.	Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.	

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H-1	Unabsorbed Overhead And Evaluation Of The Eichleay Formula	WP Reference
<b>Version 10.1, dated Mar 2024</b>		
1.	Determine the formula or method the contractor applied to compute the claim for recovery of unabsorbed overhead. If the contractor applied a formula other than the basic Eichleay formula (See Eichleay Worksheet) such as the modified Eichleay, determine the basis for its use as opposed to the basic Eichleay formula.	
2.	Check the mathematical accuracy and support of the contractor’s computations used in the methodology or formula. Review all working papers that support the contractor’s computations. If the contractor hired consultants to prepare the REA or claim, request all working papers that support the consultants’ work product. Reconcile the contractor’s data to incurred cost records and other documents as appropriate.	
3.	<p>Audit of Eichleay formula damages:</p> <p>a. Examine the Eichleay formula billings/allocation ratio components (Refer to Worksheet for the Eichleay Formula).</p> <p>(1) Determine if the contract billings (revenues), total billings (revenues), total fixed overhead and days of performance are for the same time interval from the date of contract award to the completion date. For Eichleay purposes, billings are revenues, not progress payments or public voucher payments (see CAM 12-804.2).</p> <p>(2) Determine if the billings data (contract revenue) used in the allocation ratio are accurate and appropriate.</p> <p>(a) Determine if the contractor uses an allocation base other than contract billings (such as contract labor/total labor). If so, compare this ratio with the established Eichleay formula allocation ratio and contract billings/total contract billings.</p> <p>(b) Recompute the Eichleay formula using the billings allocation ratio unless the impact of a different measurement allocation base is immaterial or the contractor can demonstrate that the Eichleay formula billings allocation ratio would lead to inequitable results.</p> <p>(c) If the contract has not been completed, determine if the contract billings and total contract billings (Refer to the Worksheet for Auditing Unabsorbed Overhead Using the Eichleay Formula, Step 1) include estimates to complete. Evaluate the basis and reasonableness of the estimates.</p> <p>(3) Review the contractor’s method for recognizing revenue (billings) to determine if the method results in an inequitable allocation of unabsorbed overhead (Refer to the Worksheet for Auditing Unabsorbed Overhead Using the Eichleay Formula, Step 1).</p>	

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<ul style="list-style-type: none"><li>(a) Percentage-of-completion method. Evaluate the assumptions used to measure the extent of progress towards completion.</li><li>(b) If completion is overstated or understated, adjust the billings (revenues) whether in the numerator or denominator of the formula to prevent over or under recovery of unabsorbed overhead.</li><li>b. Analyze the overhead thoroughly to remove all variable overhead costs. If semi-variable costs are included, remove the variable portion (CAM 12-804.3). Ensure that all unallowable costs are removed from the overhead.</li><li>c. Determine if the “delay days” used in the contractor’s Eichleay formula computations represent only the number of days that the performance of the contract was extended beyond the original or previously revised completion date because of a Government caused delay or suspension. Specialist assistance may be required. Question any days that are not related to the extended performance period caused by the Government caused delay or suspension (CAM 12-804.4).</li><li>d. Recompute the Eichleay formula using the results obtained from steps a, b, and c above, if required.</li><li>e. Compare the contractor’s Eichleay formula computations with the results of Step d. Question the difference between the contractor’s computation and the results of audit. Use the worksheet OAG, Presenting the Results of Audit of the Eichleay Formula.</li><li>f. Credits: Determine if the audit computed Eichleay damages calculated on the Worksheet referenced in Step e above, include:<ul style="list-style-type: none"><li>(1) Fixed overhead proposed or claimed or reimbursed that was applied to direct costs in the submission, and any new change order work or out-of-sequence work performed on the delayed or suspended contract during the delay and extension periods.</li><li>(2) Identify the out of sequence work or change order work: date and number of the change order/modification, type of work, dollar amount, date(s) work performed.</li><li>(3) Calculate the credit for out of sequence work on the delayed or suspended contract using Steps 1-3 of Steps to Assess the Impact of Replacement or Other Substituted Work on the Eichleay Formula attached. Question the costs as a credit to the Eichleay formula. Add the questioned cost to the attached worksheet “Presenting the Results of Audit of the Eichleay Formula” as a “Credit.”</li><li>(4) Credit the Eichleay formula results for any fixed overhead that the prime contractor applied to a subcontractor’s proposed or claimed unabsorbed overhead. Add the questioned costs in the “Presenting</li></ul></li></ul>	
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<p>the Results of Audit of the Eichley Formula” worksheet as a “Credit.”</p> <p>g. Assess the impact of replacement work or accelerated work on other contracts:</p> <p>(1) Review contractor records for evidence of replacement contract(s) or accelerated work (CAM 12-805.4a-c). Indicators include:</p> <ul style="list-style-type: none"><li>(a) Labor registers that show personnel from the delay contract were assigned to other contracts during the delay period.</li><li>(b) Fixed overhead rates, during the delay period and extended performance period that decreased or were unchanged.</li><li>(c) New contracts for work not normally performed by the contractor added during the delay and extension periods.</li><li>(d) Time-phased work/production schedules of the entire contract performance period as contemplated before the delay occurred, and a schedule of work as actually performed, including subcontract schedules if applicable.</li><li>(e) Contemporaneous revenue projections by contract on a plant wide basis where the time period for such projections encompasses at least in part, the time period encompassed by the entire performance of the contract including the period of delay. If total actual revenues match or are greater than planned revenues or certain contracts have higher actual revenues than planned, the contractor may have accelerated the work on certain contracts or substituted new work for the work on the delayed contract.</li><li>(f) Backlog or internal job log documents including information on commercial as well as Government jobs.</li></ul> <p>(2) Identify replacement contracts or accelerated work with:</p> <ul style="list-style-type: none"><li>(a) Replacement contract: date of award, contract number, performance period, amount of contract, the type of effort, duration or size and location (CAM 12-805.4b).</li><li>(b) Accelerated work: date of award, contract number, a schedule of the work as planned and as performed, total amount of the contract and the type of work (CAM 12-805.4c).</li></ul> <p>(3) Compute the impact of the replacement contract and accelerated work using Steps 1-7 in OAG Delay Claim Audit – Eichley Formula – Steps to Assess the Impact of Replacement or Other Substituted Work.</p> <p>(4) Questioned the difference between the Eichley formula as audited and the computed impact of replacement work or accelerated work, as shown in Step 9 in the OAG Delay Claim Audit – Eichley</p>	
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Formula – Steps to Assess the Impact of Replacement or Other Substituted Work on the Eichleay formula.	
4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
5. Summarize the results including the conclusions, basis of contractor’s cost, and audit evaluation.	

<b>I-1</b>	<b>REA or Claim Preparation Costs</b>	<b>WP Reference</b>
<b>Version 10.1, dated Mar 2024</b>		
1.	<p>If the submission is a proposal, costs to prepare the REA are generally allowable if reasonable and allocable.</p> <ul style="list-style-type: none"> <li>a. Review the supporting documentation and tailor procedures to determine the reasonableness, allowability, and allocability of the proposed amount.</li> <li>b. If professional or consultant charges are proposed or claimed, determine if they are reasonable in relation to services rendered (FAR 31.205-33). Review consultant agreements, invoices and other documents sufficient to ascertain the nature and scope of the services provided. If the fee is contingent upon recovery from the Government, question the costs (FAR 31.205-33(b)).</li> <li>c. Ascertain the contractor’s practices for charging equitable adjustment proposal preparation costs. Such preparation costs may be a direct charge if consistent with the contractor's disclosed accounting practices.</li> </ul>	
2.	<p>If the submission is a claim, preparation costs incurred after the submission of the claim to the CO are unallowable even if incurred in support of negotiations or alternative disputes resolution (ADR) processes (see CAM 12-606b).</p> <ul style="list-style-type: none"> <li>a. Review invoices and other documents sufficient to ascertain the nature and scope of the services provided. Review the supporting documentation to determine the reasonableness, allowability, and allocability of the proposed or claimed amount.</li> <li>b. Determine if proposed or claimed preparation and support costs are unallowable per FAR 31.205-47(f).</li> </ul>	
3.	Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
4.	Summarize the results including the conclusions, basis of contractor’s cost, and audit evaluation.	

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J-1	Construction Contracts	WP Reference
<b>Version 10.1, dated Mar 2024</b>		
1.	<p>Review the Government and contractor field reports, contractor’s job site diary, and other correspondence between the Government and prime and subcontractors for evidence of potential non-Government caused reasons for increased costs, extent of work performed, status of employees and subcontractors/vendors during delay periods, and types and dates of equipment usage. This may disclose evidence of potential non-Government caused reasons for increased costs such as:</p> <ul style="list-style-type: none"> <li>• Subcontractor performance issues;</li> <li>• Problems with material purchases or timing of delivery;</li> <li>• Required re-work or remedial work; and</li> <li>• Internal problems.</li> </ul> <p>Discuss data found in the records with those employees responsible for the records. Compare the data with that provided in the REA or claim and determine the basis for any discrepancies.</p>	
2.	<p>Construction Labor - If applicable, review the contractor’s Davis-Bacon Act certified payroll record reports submitted weekly to the Government for the period under review. These reports are usually submitted on Department of Labor Form WH-347 (see FAR 53.303-347).</p> <p>a. Determine if the employees working on the job prior to the delay continued to work on the job full time or part time during the period of delay.</p> <p>b. Verify employees’ pay rates to the contractor’s payroll records, paid checks, and submitted costs.</p>	
3.	<p>Construction Equipment - If the REA or claim includes costs of construction equipment, review the submitted costs for compliance with the allowability requirements set forth in FAR 31.105(d)(2).</p> <p>a. Determine the contractor’s basis for proposed or claimed equipment costs, actual equipment costs or predetermined rates.</p> <p>b. Actual cost data:</p> <p>(1) Trace proposed or claimed actual equipment costs to the contractor’s books and records.</p> <p>(2) Determine if cost data is available for each piece of equipment proposed or claimed or groups of a similar series or serial equipment (FAR 31.105(d)(2)(i)(A)). If the data is available, the FAR requires that the actual data should be used and not predetermined rates.</p> <p>(3) If the equipment was idle or on standby during the asserted delay, question any proposed or claimed operating costs, such as gas, fuel, and operators’ costs.</p>	

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<p>(4) Analyze the accounting assumptions used in the computation of actual equipment costs, such as equipment life, year entered into service, and salvage values. Request technical assistance if needed. Reconcile this data to other job records and company-wide financial accounting data.</p> <p>(5) Determine if the equipment costs are proposed or claimed in accordance with the contractor's normal capitalization policies. Items not customarily capitalized (i.e., normally expensed), such as the costs of wheelbarrows or small tools, should be omitted from equipment calculations.</p> <p>c. Predetermined rates:</p> <p>(1) Determine if the contractor met the FAR criteria permitting the use of the schedules (see step 3.b.(2)). Determine if the contractor's accounting system is capable of identifying the equipment costs based on the FAR criteria. If actual data can be obtained, the rate schedules should not be used.</p> <p>(2) Determine if the contract specified predetermined rate schedules to compute equipment costs. If a schedule is not mandated, request specialist assistance on the choice of an appropriate rate schedule. If the contractor used a schedule other than the one mandated in the contract, evaluate the reason for the deviation.</p> <p>(3) Verify the contractor used the predetermined rate schedule for the rates used to compute the equipment costs.</p> <p>(4) Review other proposed or claimed direct and indirect costs to determine if the costs of equipment proposed or claimed are included. Question any duplicative equipment costs.</p> <p>(5) If proposed or claimed equipment costs included costs contained in non-equipment cost categories at the time of the bid or in other accounting records, determine the basis for reclassifications. Question these costs if reclassification is not adequately substantiated or unrelated to the subject delay or disruption (see CAM 12-802.5d).</p> <p>(6) Review supporting records for any evidence that the proposed or claimed equipment was used for other work during the asserted standby period. If so, question the proposed or claimed costs as unallocable to the subject contract.</p>	
<p>4. Job Site/Field/Extended Overhead – General Conditions:</p> <p>a. Verify the mathematical accuracy of supporting schedules, and ensure supporting data identifies the link between the asserted Government action or inaction and the increased costs proposed or claimed.</p> <p>b. Determine whether the contractor's allocation method is consistent with its established accounting practice and applied for all contracts.</p>	

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<p>Costs may be directly identified or indirectly charged based on a markup percentage or daily rate (dividing total job site overhead cost on the project by the total days of contract performance and then multiplying the result by the number of days of compensable delay); however, FAR 31.203 prohibits a contractor from using more than one allocation method for recovery of job site overhead. (See CAM 12-802.4.b.)</p> <p>c. Review negotiated change orders/contract modifications to ensure that:</p> <ul style="list-style-type: none"><li>• The contractor has not already been compensated for field overhead related to delay days (which makes costs in this claim/REA duplicative);</li><li>• The contractor excluded inexcusable delays (caused by the prime, any subcontractor, supplier or vendors at any tier):</li><li>• The contractor only included excusable delays (unforeseeable, not under the control of, not caused by either the owner or the contractor or any party for whom they are responsible, at any tier, e.g., act of nature, i.e., severe weather, earthquakes, etc.) if they occurred in conjunction with a compensable delay.</li><li>• An adjustment was made for any applicable change orders containing a release or an accord and satisfaction clause precluding additional recovery of job site overhead.</li></ul> <p>d. Determine if delay days for extended performance exclude non-compensable delays including those identified in steps (3) and (4). If technical specialists' assistance is needed, incorporate results.</p> <p><i>Note: A subcontractor must provide analysis/evidence of the impact of a delay. If a subcontractor's asserted delay days rely solely on the prime contractor's delay days without any type of analysis/evidence by either the subcontractor or the prime as to its relevance to the subcontractor's own delay, the delay days are considered unsupported and should be questioned.</i></p> <p>e. Compare proposed or claimed job site overhead to original bid documentation:</p> <ul style="list-style-type: none"><li>• Determine whether job site overhead may have been underbid. Recouping these costs in the REA or claim is unreasonable.</li><li>• Obtain and evaluate the contractor's justification for proposed or claimed costs not included in the original bid, and assess whether the increased costs are related to the contractor's assertions regarding Government action or inaction. (CAM 12.705)</li></ul> <p>f. Review the contractor's calculations to verify the removal of non-time related costs such as:</p>	
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<ul style="list-style-type: none"> <li>• Mobilization and demobilization costs;</li> <li>• Costs to install electrical, telephone, water gas, safety fencing on the site at the beginning of the project;</li> <li>• Office furniture, copiers, scanners, fax machines and computer costs (if purchased for the project, not leased or capitalized).</li> </ul> <p>Non-time related costs do not change when the project is delayed and should not be included in the damage calculation.</p> <p>g. Review the cost patterns for items in the job site overhead pool that may have been variable up to a certain point in time; but ceased to be incurred after that point in time. If such costs are not being incurred during the delay period, they should be omitted from the damage calculation.</p> <p>h. Review cost records for company-owned equipment included in the job site overhead pool. Determine if the assets had been fully depreciated prior to the construction project. Compare the monthly booked costs to the amounts proposed or claimed. If the contractor is not using actual costs as required by FAR 31.105(d)(2)(i)(A), determine whether the contracting agency had specified the use of a particular schedule of predetermined rates or any part thereof to determine ownership and operating costs of construction equipment.</p> <p>i. Evaluate the proposed or claimed job site overhead costs and verify that costs associated with the overall operation of the business (home office overhead/general and administrative expenses) are excluded.</p> <p>j. Evaluate the proposed or claimed job site overhead costs and verify that amounts are not duplicated as a direct cost (e.g., equipment, tools, etc.).</p> <p>k. If using a daily rate, compute the daily rate proposed or claimed for each individual cost element in the job site overhead and apply the rate to the entire period of performance. Identify items in the job site overhead where the application of the daily rate to the entire period of performance yields a dollar value in excess of costs incurred, and evaluate the contractor's justification for significant differences.</p> <p>l. If applicable, verify the allocation base to contractor's supporting records.</p>	
<p>5. Bonding Costs/Premium:</p> <p>a. Brief the contract for the bonding requirements clause (FAR 52.228-15).</p> <p>b. Verify the computation of bonding costs/premium. Bond costs/premium are based on the total value (costs plus profit) of the contract including modifications. Determine if the contractor's computation is based on the correct rate for the appropriate level of</p>	

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<p>contract revenues since bond rates may be based on a sliding scale. Since a bond rate is applied to a value that includes profit, refer to audit program WP L-1 to determine the effect that questioned submitted REA or claim costs may have on profit.</p> <p>c. Determine the total bonding costs/premium included in the original contract price, modifications and subject REA or claim. Compare this amount with incurred costs or future liability. Question the difference.</p>	
<p>6. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	
<p>7. Summarize the results including the conclusions, basis of contractor's cost, and audit evaluation.</p>	

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<b>K-1</b>	<b>Total or Modified Total Cost Method</b>	<b>WP Reference</b>
<b>Version 10.1, dated Mar 2024</b>		
<p>If the contractor computed any element(s) of the REA or claim using the total cost or modified total cost method, perform the following steps to determine if the contractor meets the criteria for acceptable use of the method. These steps should be performed in addition to any of the previous steps (in WP sections C-01 through J-01) that apply.</p>		
<p>1. Impossible to determine actual related increased costs.</p> <ul style="list-style-type: none"> <li>a. Review the contractor’s accounting system and Disclosure Statement, if applicable, to determine the capability and requirements to separately account for increased costs caused by the asserted change(s) caused by the delay/disruption.</li> <li>b. Determine if the contract included the Change Order Accounting Clause (FAR 52.243-6). Determine if the CO issued any directives requiring the contractor to establish separate cost accounts for activities related to changed work and if the contractor complied with the directive.</li> </ul>		
<p>2. Bid is realistic.</p> <ul style="list-style-type: none"> <li>a. Compare the bid with Request for Proposal (RFP) requirements. Determine if any significant elements were omitted from the bid but included in the submitted costs.</li> <li>b. Compare the contractor’s bid with unsuccessful contractors’ bids for the same acquisition, if available from the CO.</li> <li>c. Compare the proposed with recent historical data of similar work. If the bid is significantly less, determine why.</li> <li>d. Compare the contractor’s bid delivery schedule with those of unsuccessful bidders, if possible. Determine the reasons for significant differences.</li> <li>e. Compare bid cost elements to incurred cost elements, by task if possible. Examine those elements where the bid cost is significantly different from the incurred costs. Determine the reason for the difference.</li> <li>f. Review prior audit reports on the contractor’s estimating system for deficiencies that may have impacted the reasonableness of the bid.</li> </ul>		
<p>3. Incurred costs were reasonable.</p> <ul style="list-style-type: none"> <li>a. Reconcile the incurred costs to the contractor’s books and records. Determine if the incurred costs were allocable, allowable and reasonable and comply with contract provisions. Question those costs proposed or claimed that were not incurred or would not be incurred.</li> </ul>		

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<ul style="list-style-type: none"> <li>b. Obtain specialist assistance, if necessary, to determine the cost realism of the estimate-to-complete if the contract is not yet complete.</li> <li>c. Determine if estimates based on incurred costs are logical and reasonable in the circumstances.</li> <li>d. Evaluate changes in methodologies used for the bid as compared to the incurred costs. Determine if the contractor changed the labor mix or revised the make-or buy decisions. Determine the impact on submitted increased costs.</li> </ul>	
<p>4. Government is clearly responsible.</p> <ul style="list-style-type: none"> <li>a. Review the contract budgets for the period of performance and the contractor’s policies and procedures for comparing actual performance to the budget. Identify and analyze variances the contractor should have identified as work was accomplished. Gather information on contractor caused increased costs and increased costs due to asserted changed work.</li> <li>b. Determine if the contractor implemented any accounting changes having impacts that were not considered in the REA or claim.</li> <li>c. Determine if the contractor recognized any increased costs attributable to its own mismanagement in scheduling or material procurement.</li> <li>d. Review correspondence between the prime contractor and the subcontractor(s) for indications of subcontractor failure to perform according to schedule or other issues that would cause increased subcontract costs or prime contract costs.</li> <li>e. Determine if there were extraordinary equipment repairs or delayed material ordering or deliveries that were charged to the contract and not the responsibility of the Government.</li> <li>f. Review increased incurred overhead costs that may have been caused by loss of planned contract awards, contractor-caused delays, or contract terminations that are not the responsibility of the Government.</li> <li>g. Determine if there were higher than normal material scrap costs that may indicate contractor caused cost growth.</li> <li>h. Determine if the prime contractor proposed or claimed hours that were actually performed by a subcontractor. Determine if the subcontract was firm-fixed-price and if there was a change to a cost reimbursement contract. If there was no change, there is no liability to the Government.</li> </ul>	
<p>5. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	

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6. Based on the results of the previous steps, determine if proposed or claimed costs meet the four criteria for applying the total cost or modified total cost method. Summarize the results.	
7. If the modified total cost method was used, determine if the adjusted costs were accurate and complete, and substantiate use of a modified total cost method. Summarize the results.	

<b>L-1</b>	<b>Profit</b>	<b>WP Reference</b>
<b>Version 10.1, dated Mar 2024</b>		
1.	Evaluate the allowability of the proposed or claimed profit based on the contract clause under which the contractor’s delay/disruption proposal or claim is made. Delay/disruption proposals and claims may be submitted under various contract clauses with differing provisions for profit. Profit is specifically excluded under the provisions of FAR 52.242-14 and -17 on elements of the submission related to a suspension of work or Government delay, respectively, and should be questioned. Profit is not specifically excluded under FAR 52.242-15 or FAR 52.236-2. Question profit amounts specifically excluded per FAR.	
2.	Lost profit is an estimate of the profit that the contractor would have realized on the contract “but for” the Government’s action or inaction. If the submission includes “lost profit,” evaluate supporting records for evidence that the proposed or claimed amount is attributed to the asserted delay/disruption. If the contractor cannot demonstrate the contract would have earned a profit “but for” the Government’s action or inaction, “lost profit” should be questioned.	
3.	Include a comment in the explanatory note acknowledging the contracting officer’s authority to further adjust the proposed or claimed rate. Because the overall amount of profit or fee determination is solely within the contracting officer’s discretion, the audit team should not attempt to apply the weighted guidelines or any terms of the contract that specify the considerations for awarding profit or fee. However, the explanatory note may include information such as the following to assist the contract officer during negotiations: <ul style="list-style-type: none"> <li>a. Rate of profit contemplated at time contract was negotiated.</li> <li>b. Average rate of profit on similar products or similar lines.</li> <li>c. Other observations related to fee or profit that arise during the audit.</li> </ul>	
4.	Verify the mathematical accuracy of the contractor’s computations.	
5.	Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
6.	Summarize the results including the conclusions, basis of contractor’s profit, and audit evaluation.	

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<b>A-1 Concluding Steps</b>	<b>WP Reference</b>
<b>Version 10.1, dated Mar 2024</b>	
1. Summarize and document the audit results.	
2. Discuss audit findings with supervisor and regional/CAD claims Technical Specialist (if available). Coordinate with DL as needed.	
3. After management approval, communicate the audit results with the requestor/contracting officer: <ul style="list-style-type: none"> <li>a. Provide conclusions on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues.</li> <li>b. Determine if inclusion of detailed explanatory notes in our report would serve a useful purpose if there are no findings.</li> <li>c. If there is a reason to believe that the audit has been requested in support of a litigation, ask the requestor to state whether the audit will be covered by the attorney work product privilege (see CAM 15-503 and 4-304.7). If so, explain the importance of the exit conference in resolving audit issues and avoiding errors, and attempt to obtain permission to hold an exit conference.</li> </ul>	
4. Unless prohibited by attorney work product privilege, conduct an exit conference with contractor representatives in accordance with procedures specified in CAM 4-304. Invite the requestor/contracting officer to attend. Discuss all audit conclusions based on incurred costs. For audit conclusions based on estimates of future work, discuss only factual differences. (For claims appealed to the Board of Contract Appeals, U. S. Court of Federal Claims, or U. S. Court of Appeals for the Federal Circuit, coordinate with the Government trial attorney prior to conducting an exit conference.)	
5. Complete the administrative working papers.	
6. Update permanent file as appropriate.	
7. Update the draft audit report to incorporate the exit conference, contractor's reaction, and auditor's response, if applicable. Submit the working papers and draft audit report to the supervisor/manager for final review and processing.	