Activity Code 23000		Forward Pricing Rate Proposal Audit
Version 7.0, dated February 2021		
B-1	Planning Considerations	

Type of Service - Attestation Examination Engagement

Audit Specific Independence Determination

Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment.

(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this working paper. For example, an FAO may add additional auditors (e.g., technical specialists) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)

Forward pricing rate proposal audits are performed to support the establishment or modification of forward pricing rate agreements (FPRA) or forward pricing rate recommendations (FPRR) or to form the basis for subsequent audit recommendations related to price proposals. The FPRA, FPRR, or future proposal audits are used to support a contracting officer's evaluation of the price reasonableness of the offered price (FAR 15.404-1). In order to establish an FPRA, the ACO shall obtain the contractor's forward pricing rate proposal and require that it include cost or pricing data that are accurate, complete, and current as of the date of submission (FAR 42.1701(b)). The ACO shall invite the cognizant contract auditor to participate in developing a Government objective and in the negotiations.

A certification is not required for the forward pricing rate proposal. However, when certified cost or pricing data are required for individual pricing actions, the contractor is required to describe any FPRAs in each specific pricing proposal to which the rates apply and to identify the latest cost or pricing data already submitted in accordance with the FPRA (FAR 15.407-3(a)).

This standard audit program assists the auditor in planning and performing the audit of a forward pricing rate proposal to evaluate the proposal for its acceptability in determining fair and reasonable rates and factors for the award, administration, modification, or re-pricing of Government contracts. The audit steps contained in the program can be used on a stand-alone basis or in conjunction with the Agency's price proposal audit steps. The audit steps should be tailored, as appropriate to the contractor's specific circumstances, and reflect an understanding among the audit team as to the scope required to meet auditing standards and DCAA objectives for the current assignment. Portions of the audit, which are covered in other assignments (e.g. incurred cost, disclosure statement, and internal control audits), should be referenced at the appropriate place in the audit program.

The audit program can also be used when the contractor updates an initial submission during the year. Audit teams should gain an understanding of the changes and accomplish a risk assessment to tailor appropriate audit coverage. Audit teams should focus on the updates, as an entire new audit may not be required. The audit team may only need to perform analytical procedures on

the updated portion, which combined with the tests of details performed in the audit of the initial proposal support compliance with GAGAS.

Auditors are reminded that transaction testing is only one form of tests of details. Testing the underlying assumptions supporting the budgetary amounts for reasonableness is also a test of details. When the underlying assumptions are based on historical amounts some level of limited transaction testing may be necessary, if no other incurred cost testing has been completed on the historical amounts.

Purpose and Scope

1. This audit program is designed to provide general guidance for evaluating whether the contractor's proposed forward pricing rates comply with FAR, CAS, DFARS and other Agency Supplements, if applicable.

2. This audit program covers the reviews of rates and factors which either lead to establishment of formal or informal forward pricing rate agreements, or will form the basis of subsequent auditor recommendations regarding prospective costs.

3. The scope of the examination will generally depend on individual circumstances. The audit procedures must be tailored based on the results of the risk assessment.

   For the calendar year's initial proposal, as a minimum, the scope should include steps to determine that (i) rate computations are mathematically correct; (ii) projected business volume, allocation bases, and indirect costs are reasonable and in consonance with the contractor's internal plans; (iii) rate data are valid and current; and (iv) estimating practices comply with established or disclosed estimating and cost accounting practices.

   For any updates to the calendar year's initial proposal, the audit team should gain an understanding of the changes and accomplish a risk assessment which will determine if an entire new audit is warranted and the appropriate procedures. Analytical procedures performed on the updated section of the new submission, which combined with the detailed audit of the initial submission, should be compliant with GAGAS. The audit results may then be reported as a supplement to the initial report issued, or could be reported within the next price proposal audit.

Other Planning Considerations

Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.

References

1. CAM Chapter 9, Audit of Cost Estimates and Price Proposals.
2. FAR 15, 31, and 42.1701; DFARS 215 and 231.
3. Applicable Non-DoD Agency FAR Supplement(s) (CAM 15-102).

4. Cost Accounting Standards (CAS) (CAM Chapter 8).
5. CAM Appendix B - Specialist Assistance.
6. CAM Appendix B-400 – Cost Estimating Methods.
7. CAM 10-200 – Audit Report Format and Contents (General).

B-01	**Preliminary Steps**	**WP Reference**
Version 7.0, dated February 2021		

1. If this is a requested audit, review the audit request to determine the nature and objective of the audit. Note any specific information requested and special requirements. Contact the requestor to obtain clarifications of the request and discuss any specific concerns or special requirements they may have. If self-initiated, notify the contracting officer of the commencement of the audit.	
2. Identify the potential Non-DoD Agencies utilizing the audit results and assess the impact of the Agency Supplement(s) on the audit scope. If this is a requested audit, discuss with the requestor the anticipated users of the FPRA or FPRR. If self-initiated, identify the anticipated subsequent audit requesters. The contractor's future contract awards projections used for developing base estimates can identify potential users of the audit results.	
3. Determine if the data supporting forward pricing rate agreements was submitted in the form required by the contracting officer (FAR 15.403-5(b)(3)). • If subject to DFARS 215.403-5, review the contractor-prepared adequacy checklist, (note this checklist will only be available if requested by the contracting officer per DFARS 215.4035(b)(3)), and the proposal package for adequacy using the Forward Pricing Rate Proposal Adequacy Checklist Tool, included as WP 31a. • If not subject to DFARS 215.403-5, obtain and document the proposal form required by the contracting officer. Assess the adequacy of the proposal against the form required by the contracting officer. If you identify proposal inadequacies during your adequacy assessment, discuss them with contractor and the contracting officer and recommend a course of action.	
4. Notify the appropriate contracting officer of the start of the risk assessment and that the expected completion date will be provided in a formal acknowledgment once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.	

5. Coordinate with contractor and contracting officer and obtain a walkthrough of the proposal to gain an understanding of the basis of the proposal and related supporting documentation. Invite the contracting officer. As part of this walkthrough, discuss any inadequacies identified and require the contractor to: a. Explain the basis of estimate for significant pools, bases and cost elements b. Explain the processes used to develop the estimates and the internal controls/policies and procedures related to those areas c. If pools include significant Independent Research and Development (IR&D) costs, explain (1) whether the contractor is a "major contractor" as defined in DFARS 231.205-18(a) that is required to comply with the reporting requirements of DFARS 231.20518(c)(iii)(C); (2) if so, policies and procedures to determine compliance, and (3) obtain access to database input provided to the Defense Technical Information Center (DTIC) d. Demonstrate how the numbers/amounts for the significant pools, bases, cost elements and factors are derived e. Demonstrate how historical trend data was considered in the development of the FPRP f. Demonstrate the homogeneity of pool costs and allocation bases used are appropriate	

g. Identify the significant items that were updated or revised and the overall impact of the changes If the submission is a revision/update to the forward pricing rates for the year (i.e., not the first submission for the year), have the contractor explain the reasons for the update and identify the changes between the original submission for the year and the new revision/update. At the conclusion of the walkthrough, summarize with the contractor any additional items/data needed for the audit that were not furnished with the FPRP or were not provided during the walkthrough.	
6. Make a final determination of overall adequacy based on initial adequacy review and results of the walkthrough. If inadequate, discuss with the contractor and requestor and follow-up in writing identifying the specific concerns and recommend the contracting officer return the proposal to the contractor.	

7. Document the materiality and sensitivity of the FPRP by obtaining and analyzing the proposed dollar value of the pools and bases; contractor mix of contract types; mix of Government/commercial business; special contract terms (e.g., ceilings on rates); etc. Summarize the impact on the audit scope of these factors in WP B.	
8. Review permanent files and prior/in-process audits for significant and relevant inherent risk factors such as, but not limited to: a. Audit leads, including contractor mandatory disclosures required by FAR 52.203-13(b)(3)(i) b. Prior audit findings c. Outstanding FAR and CAS noncompliances d. Cost avoidance recommendations from recent operation audits e. Disclosed accounting changes f. Planned or executed business reorganizations; mergers; acquisitions, or divestitures g. Contractor cost savings or cost reduction initiatives h. Advance Agreements i. Pertinent results from review of Board of Director minutes Summarize the impact on audit scope of these factors in WP B.	
9. Review permanent file to determine if previous audits included findings and recommendations that relate to the subject matter. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures:	

a. Ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions. (GAGAS 7.13) b. Document the results of the inquiry and the impact of the corrective actions to the subject matter.	

10. 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 in the working papers and perform the procedures below. a. Ask contractor management if internal audits were performed. If yes, request a summary listing of the internal audits to assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit. b. If the review of the perm file or the contractor identifies relevant internal audits: • Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment. • Document the results of the determination in writing. • If assignment is at a major contractor location, coordinate with the CAD or 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, the auditor should request the contractor provide access to the 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. 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.	

11. Gain an understanding of the contractor's process in setting the compensation package (executive and non-executive) and ensuring that the aggregate of each element of the total compensation package complies with the allowability and reasonableness requirements of FAR 31.205-6. Assess the level of risk and extent of testing needed. If necessary, contact the Agency Compensation Team. If the Agency Compensation Team will perform detailed procedures, the FAO and Compensation Team auditors should coordinate with the contractor and obtain a detailed walkthrough of the compensation system. Based on this understanding of the system and identified risks, tailor detailed procedures to test for compliance with FAR 31.205-6.	
12. Perform a high level trend analysis at the total indirect pool/base level using historical data to assess the risk of ineffective controls over estimating by performing the following steps: *Example Risk Factors:* • *Consistent underestimating of base costs* • *Consistent overestimating of pool expenses* • *Trend of costs/rates over time as compared to estimates (e.g., rates historically are flat but the contractor is forecasting an increase in its rates)*	
a. Determine and assess whether there have been any organizational structure changes, unusual events, or accounting changes where the historical trend analysis may not be appropriate or may require adjustment.	
b. To determine overall historical accuracy of contractor estimates, compare total forecasted pool and base costs and resulting rate to actual pool, base, and rate for relevant historical period. This needs to consider out years (i.e., how well did the contractor estimate rates for 2011 in 2008, 2009, and 2010).	
c. Document and summarize impact of trend analysis on audit risk and scope in WP B	
13. Analyze the corporate, intermediate home office and/or shared services allocations assigned to the pool and base costs to determine appropriate audit coverage by performing the following steps:	

a. Determine if allocated costs included in the FPRP have been audited by the FAO(s) cognizant of the allocated costs. If not, ask the cognizant auditors if there have been accounting and organizational changes which affect the allocation of costs among the segments.	
b. Document the materiality of the incoming allocations.	

c. Perform comparative analysis of prior year(s) proposed/actual allocated cost to determine: (1) If there is wide variability historically in the amount/proportion of allocated costs in the indirect rate pool(s), and (2) If the current proposed amount/proportion is consistent with history.	
d. Based on the materiality of allocated costs and the results of trend analysis in steps 12a., 12b., and 12c. above, determine if procedures (such as a decrement based on historically questioned cost) can be accomplished at the segment level upon which to base an audit opinion on the indirect rates and tailor the steps accordingly in WP Section I or determine if an assist audit is needed from the cognizant FAO.	
14. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following: 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 205.32) b. 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 matter. (GAGAS 7.14) c. 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) *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.*	
15. 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. The discussion should include:	

• relevant prior audit experience (e.g., questioned cost, relevant reported accounting system deficiencies), • relevant aspects of the contractor and its environment, • 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: Fraud Detection Resources for Auditors (copy link and paste into web browser)), • other known risk factors identified that could materially affect the subject matter, and • the audit team's understanding of relevant key internal controls. 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. 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.	
16. Document your understanding of the relevant contractor internal controls related to the significant rates, costs, or factors included in the FPRP on WP B-02.	
17. When the evidence to be obtained during the audit is dependent on computerized information systems, document on WP B-02 the audit work previously performed or to be performed that supports the reliability of the computer-based evidence.	
18. Determine the need for assist audits and document on WP B-03. Coordinate, as necessary, with the Field Detachment to determine if assistance is needed. Coordinate and request assist audits from the FAOs cognizant of the corporate home office/intermediate home office/shared service allocations as determined above.	
19. Identify and document the need for specialist assistance based on the understanding of the bases of estimate. Considering risk and materiality, prepare a detailed request for specialist assistance if required and document on WP B-03. (CAM Appendix B)	
20. From the information gathered in the preceding steps, assess the Government's risk associated with specific pools, bases, cost elements, etc. and tailor your audit scope accordingly. Provide an overall summary of the impact of the risk factors (materiality, sensitivity, fraud, and internal control) on the audit scope. Using this information, tailor the audit steps on the -01 working papers to reflect the audit procedures to be applied that	

are consistent with the unique circumstances at the contractor and the risk factors identified. Each -01 working paper should: • Identify audit steps that are not applicable for this examination and the reason the step is not applicable; • Modify applicable existing audit steps to reflect the specific circumstances at the contractor location and the risk factors identified; and • Tailor the audit steps to address the specific circumstances at the contractor location and the risk factors identified.	
21. The team should discuss the results of the risk assessment and reach an agreement on the (i) planned audit scope, including the detailed audit steps (-01 WPs) to be performed, (ii) timeframe for completing the audit including the proposed delivery date which will be discussed with the requestor and mutually agreed-to, (iii) milestone plan to ensure timely completion of audit, and (iv) zero-based budget. Document and obtain supervisory approval of the risk assessment and the planned scope of examination for each cost element documented in WP B and -01 WPs.	
22. Contact the requestor and discuss the proposed audit report delivery date to arrive at a mutually agreed-to date. If a wide disparity exists between the contracting team deadline and the amount of time the audit team needs to perform the work, the audit team needs to discuss with the requestor this disconnect in expectations immediately. If an agreed-to date cannot be reached, audit teams should elevate the concerns through the chain of command.	
23. Arrange and conduct an entrance conference with the contractor personnel who developed the rates and factors. Confirm the audit team understands how the rates and factors were developed and discuss the availability of required data and personnel necessary to timely support the audit. Communicate a high-level version of the milestone plan with contractor and contracting officer to develop a shared understanding of significant dates and responsibilities (DCAA, ACO, and contractor). If applicable, include a follow up with contractor management on: a. corrective actions that address previous DCAA audit findings and recommendations b. other studies or audits that impact the subject matter under audit	
24. Prepare and send a final acknowledgment memorandum to the requestor to communicate the audit scope and the agreed-to date.	
25. Prepare and send a notification letter to the contractor.	

C-01	Testing Reliability of Historical Data	WP Reference

Version 7.0, dated February 2021	
These steps are applicable when unaudited historical costs are used as the basis of the proposed rates or are used as part of our audit evaluation. In addition, you should qualify the report when you rely on significant unaudited data in your examination.	
1. Reconcile historical costs to books and records.	
2. Determine if there are significant variations/outliers in the incurred amounts (by account) for a relevant period of history using trend/comparative analysis.	
3. Perform detailed testing of any significant variations or outliers identified in Step 2 above (See CAM 9-703.5). Note: The purpose of this test is to determine whether the outliers represent a need to consider an adjustment to the recorded historical cost data used to support the proposed rates	
4. Determine if additional procedures need to be performed to provide reasonable assurance that historical cost, used as a basis of estimate or in support of planned audit procedures, is reliable. If so, add those additional procedures to the audit program.	
5. Review and document the performance of real-time audit procedures (including any related follow-up and resolution) performed on historical data supporting projected future costs (i.e. Real-time Labor testing; Real-time Material testing; Indirect Allocation Bases).	

D-01	**Direct Labor Rates (CAM 9-500)**	**W/P Reference**
Version 7.0, dated February 2021		
1. Considering the understanding of the basis of estimate documented in the risk assessment (WP B section), perform the following procedures:		
2. Compare the basis of the proposed direct labor rates to disclosed or established practices and compare proposed rates to actual rates recorded in the contractor's accounting system to verify that estimated rates are not in greater detail than accumulated (CAS 401/CAS 402/FAR 31.202)		
3. If average rates are used, determine if the contractor's method for developing average rates (e.g., weighted by number of employees by pay grade or simple average) is reasonable and direct labor rate categories are homogeneous (CAS 418-50(a)(2)(ii)).		
4. Compare proposed base year (year 1) labor rates to current payroll data, signed employee agreements, appropriate Wage Determination rates (if applicable) and analyze significant differences, if any.		

Note: Proposed rates based on current payroll or historical rates should be further evaluated for reasonableness, i.e. there is no presumption that historical rates are reasonable. (See step 7 below.)	
5. Determine if the contractor plans to implement cost savings or cost reduction initiatives (such as pay freezes, plant shutdowns, etc.) and if these are reflected in the forecasted costs.	
6. Evaluate the proposed labor rates and determine if the contractor considered the impact the following issues may have on the projected rates: a. Known or anticipated changes in headcount (hiring/layoffs/turnover) b. Proposed rates for salaried employees reflect total hours worked (including uncompensated overtime). c. Shift differentials and overtime premiums.	
7. Evaluate the reasonableness of the proposed escalation/merit increases considering the following: a. Management approved wage increases/plans or budgets or HR raise information including the timing of granting raises (once a year or continually throughout the year) b. Historical wage increases. c. Union agreements	
8. Evaluate the reasonableness of both direct and indirect compensation (FAR 31.205-6) based on risk by designing appropriate audit procedures. Consider the following in determining reasonableness: a. Basis of contractor's compensation pay structure (for example, compensation and/or rates are established and periodically compared to market pay levels). b. Prior reviews of compensation levels or rates including system audits, if applicable. c. The contractor's other practices for establishing compensation not covered in a. above including but not limited to bonus policies and practices. d. Independent survey data *Note: Compensation pursuant to labor-management agreements (bargaining unit employees) will not be tested for reasonableness under FAR 31-205-6(b)(2). See CAM 6-413.1*	

MASTER AUDIT PROGRAM

1. General	

a. Considering the understanding of the basis of estimate documented in the risk assessment (WP B section), perform the following procedures:	
b. Compare composition of pools and allocation bases in the proposed FPRP to disclosed or established practices (CAS 401, 402, FAR 31.203(a)).	
c. Verify that the accounting period coincides with the contractor's fiscal year or historical rate period (CAS 406/FAR 31.203(g)).	
d. Reconcile contractor pool, base, and rate projections with budgetary data or other internal reports (operating budgets, sales forecasts, programs budgets, long range plans, etc.) *Note: The extent of detail will vary depending on the specific data supporting each year and based on the size and complexity of the contractor.*	
2. Indirect Cost Pool Estimates Considering the understanding of the basis of estimate documented in the risk assessment (WP B section), perform the following procedures:	
a. Determine that pool costs are homogeneous (FAR 31.203(c); CAS 418)	
b. Determine the percentage of unallowable costs (and voluntary deletions) in prior year incurred costs audits and unaudited submissions and determine if proposed costs are properly adjusted for historical unallowable/not claimed costs. If not, consider decrementing proposed pool costs for historical unallowable/not claimed costs (FAR Part 31, CAS 405).	
c. Perform a nomenclature review of overhead cost accounts included in the forecasted pools to identify potentially unallowable accounts (FAR Part 31, CAS 405).	
d. Compare proposed costs by cost element to historical trend data developed in audit step C-1, Step 2 to determine if proposed costs are consistent with historical trends. Identify and test any significant variations/outliers.	
e. Determine if the contractor plans to implement cost savings or reduction initiatives (such as pay freezes, plant shutdowns, etc.) and if these are reflected in the forecasted costs. If not properly reflected in forecasted costs, make adjustments as appropriate	
f. Consider performing a regression analysis to determine reasonableness of forecasted overhead costs.	

g. Evaluate reasonableness of escalation factors or other adjustments made to out-year pool expenses.	
h. Confirm costs covered by advance agreements are forecasted in accordance with those agreements and that such agreements are still valid for the forecast period.	
i. If applicable, design necessary level of substantive procedures (analytical procedures and/or detailed testing) of additional accounts as determined in the risk assessment. Document those procedures in the "Additional Audit Steps" below.	
j. Incorporate any results of compensation reasonableness reviews performed in step 7 of WP D-01. Document allocable compensation costs are allowable and reasonable.	
3. Indirect Rate Allocation Bases Considering the understanding of the basis of estimate documented in the risk assessment (WP B section), perform the following procedures:	
a. Determine if the allocation base is common to all cost objectives to which the pool is to be allocated and the base selected results in allocation of costs in reasonable proportion to the beneficial or causal relationship of the pooled costs (FAR 31.203(c); CAS 418).	
b. Verify that the allocation base reasonably represents all firm and anticipated (non-firm) business (FAR 31.201-3; FAR 31.201-4). Consider steps such as:	
(1) Compare projected costs in the base for backlog contracts to Estimates to Complete used for progress payments or EVMS reporting (including management reserve amounts) for significant programs or contracts.	
(2) Contact FLA or major procurement commands to find out if there are significant pending actions that should be included in the forecasted base.	
(3) Interview marketing department, business development team and/or program managers to determine if prospective new business was considered in the proposed forecast	
(4) Compare forecasted costs (labor, material, etc.) for specific contracts or programs to recent proposals	

MASTER AUDIT PROGRAM

1. General Considering the understanding of the basis of estimate documented in the risk assessment (WP B section), perform the following procedures:	

a. Compare composition of pool and allocation base in the proposed FPRP to disclosed or established practices (CAS 401, 402, FAR 31.203(a)).	
b. Verify that the accounting period coincides with the contractor's fiscal year or historical rate period (CAS 406/FAR 31.203(g)).	
c. Reconcile contractor pool, base, and rate projections with its budgetary data or other internal reports (operating budgets, sales forecasts, programs budgets, long range plans, etc.).	
2. G&A Cost Pool Estimates Considering the understanding of the basis of estimate documented in the risk assessment (WP B section), perform the following procedures:	
a. Determine that pool costs meet the definition of G&A (FAR 2.101; CAS 410)	
b. Determine the percentage of unallowable costs (and voluntary deletions) in prior year incurred costs audits and unaudited submissions and determine if proposed costs are properly adjusted for historical unallowable/not claimed costs. If not, consider decrementing proposed pool costs for historical unallowable/not claimed costs (FAR Part 31, CAS 405).	
c. Perform a nomenclature review of G&A cost accounts included in the forecasted pools to identify potentially unallowable accounts (FAR Part 31, CAS 405).	
d. Compare proposed costs by cost element to historical trend data developed in audit step C-1, Step 2 to determine if proposed costs are consistent with historical trends. Identify and test any significant variations/outliers.	
e. Determine if the contractor plans to implement cost savings or reduction initiatives (such as pay freezes, plant shutdowns, etc.) and if these are reflected in the forecasted costs. If not properly reflected in forecasted costs, make adjustments as appropriate	
f. Consider performing a regression analysis to determine reasonableness of forecasted pool costs.	
g. Evaluate reasonableness of escalation factors or other adjustments made to out-year pool expenses.	

h. Confirm costs covered by advance agreements are forecasted in accordance with those agreements and that such agreements are still valid for the forecast period.	
i. If applicable, design necessary level of substantive procedures (analytical procedures and/or detailed testing) of additional accounts as	
determined in the risk assessment. Document those procedures in the "Additional Audit Steps" below.	
3. G&A Allocation Bases Considering the understanding of the basis of estimate documented in the risk assessment (WP B section), perform the following procedures:	
a. Determine if the allocation base is common to all cost objectives to which the pool is to be allocated, results in allocation of costs in reasonable proportion to the beneficial or causal relationship of the pooled costs, and represents total activity of the business unit (FAR 31.203(c); CAS 410).	
b. Verify the allocation base reasonably represents all firm and anticipated (non-firm) business (FAR 31.201-3). Consider steps such as:	
(1) Compare projected costs in the base for backlog contracts to Estimates to Complete used for progress payments or EVMS reporting (including management reserve amounts) for significant programs or contracts.	
(2) Contact FLA or major procurement commands to find out if there are significant pending actions that should be included in the forecasted base.	
(3) Interview marketing department, business development team and/or program managers to determine if prospective new business was considered in the proposed forecast	
(4) Compare forecasted costs (labor, material, etc.) for specific contracts or programs to recent proposals	

G-01	**Cost of Money (COM)**	**WP Reference**
Version 7.0, dated February 2021		
Considering the understanding of the basis of estimate documented in the risk assessment (WP B section), perform the following procedures:		
1. Determine if the proposed COM factors (CAS 414 and CAS 417) are consistent with disclosed/established practices. (CAS 401/CAS 402, FAR 31.201-1)		

2. Verify that the accounting period coincides with the contractor's fiscal year or historical rate period (CAS 406/FAR 31.203(g)).	
3. For significant COM pools, compare proposed net book value (NBV) actual NBV in prior year(s) and analyze major variances.	
4. Trace a representative sample of the proposed net book values amounts to the underlying reports and records (capital acquisition plans; asset ledger; etc.).	
5. Verify that the contractor used the correct Treasury Rate (CAS 414; CAM 8-414.1)	
6. Evaluate whether the net book values of the assets are correctly divided between distributed and undistributed. (CAM 8-414.1c(2)).	
7. Determine whether undistributed assets are allocated to the appropriate indirect expense pools on a basis that approximates the actual absorption of depreciation/amortization of the assets (CAS 414; CAM 8-414.1c(2)).	
8. Capital Assets Under Construction:	
a. Determine if any of the contractor's criteria for the measurement of the cost of money is attributable to capital assets under construction, fabrication, or development as an element of the cost of those assets (CAS 417; CAM 8-417.1(a)).	
b. For significant capital assets being constructed, fabricated, or developed, verify that a representative investment amount is determined each cost accounting period, giving appropriate consideration to the rate at which costs of construction are incurred (CAM 8-417.1(b)).	
c. Verify that cost of money for assets under construction are not capitalized for any period during which substantially all the activities necessary to get the asset ready for its intended use are discontinued (unless such discontinuance arises out of causes beyond the control and without the fault or negligence of the contractor) (CAM 8-417.1(c)).	
9. Verify that the allocation bases are compatible with the allocation base used for estimating the proposed indirect rates. (CAS 401, CAS 414, and FAR 31.203(d)).	

H-01	**Other Rates and Factors**	**WP Reference**
Version 7.0, dated February 2021		
Develop audit steps appropriate to the risk and materiality of the other rates and factors proposed in the FPRP considering the understanding of the basis of estimate documented in the risk assessment (WP B section).		
1.		

2.	
3.	

I-01	Corporate Allocations (Audit Procedures at the Segment/Business Unit) (CAM 9-700)	WP Reference
Version 7.0, dated February 2021		
1. General Considering the understanding of the basis of estimate and analysis documented in the risk assessment (WP B section), perform the following procedures:		
a. Compare composition of incoming allocated costs included in the FPRP to disclosed or established practices (CAS 401, 402, FAR 31.203(a)).		
b. Reconcile costs included in the segment proposal to costs included in corporate home office, intermediate home office, shared services, etc., proposal(s). Coordinate with FAO(s) cognizant of the allocated costs to verify that the segment proposal reflects the most current amounts proposed by the corporate, home office, shared service, etc.		
2. If allocated costs included in the FPRP have been audited by the FAO(s) cognizant of the allocated costs, document and incorporate results of assist audits.		
3. If you determined in the risk assessment that an assist audit is not required, accomplish the additional procedures documented as a result of audit step B-01, step 10 in the "Additional Audit Steps" below.		
4. If an assist audit has been requested but not received analyze the applicable costs and determine whether the report can be issued with a qualification to the audit opinion and the allocated costs set out as unresolved or whether the costs are so significant to the overall pool/rate that a disclaimer of opinion is warranted.		

U-1	Agency Compensation Team: Compensation Reasonableness and FAR Cap Allowability	WP Reference
Version 7.0, dated February 2021		
Up Front Communication and Planning		

MASTER AUDIT PROGRAM

1. Review the FAO's request and accompanying data; then discuss the request with the requesting audit team. Verify that all required information is available now or will soon be provided, including: • Position descriptions, • Market pricing surveys, • Outside consultant studies, • Compensation policies and procedures, etc.	

If data is incomplete, make inquiries to determine when the data will be provided. If the data is unavailable, document the explanation and discuss with your supervisor the implications on the planned audit procedures. *Note: Working paper D-01 has steps for evaluating the projection of the workforce that would impact the projected compensation/rates in the out years. Upfront discussion is needed to ensure who is performing the different parts of evaluating rates. This testing needs to be incorporated into the comparison performed in step 12.*	
2. Review all FAO prepared risk documentation including inquiries, analytical analyses, etc. Coordinate with the FAO to clarify your understanding of risk, collaborate with the FAO to fine tune the risk conclusions, and document the rationale for the positions selected for further evaluation.	
3. Document your understanding of the contractor's basis for proposed compensation, including justifications for setting compensation higher than market mean (e.g., financial performance, qualitative factors, etc.). Where the contractor used surveys or an outside consultant to establish compensation, document the contractor's selected compensation levels, and whether the contractor used performance measures to establish compensation levels (quantitative, qualitative, or both).	
Evaluate Compensation Using FAR Limits	
4. Determine applicable FAR 31.205-6(p) Compensation Limitations. If the contractor did not propose a Blended Cap, proceed to b. a. If the contractor proposed a blended Cap, review the advanced agreement, if available, and coordinate with the FAO to determine whether the rate computation was previously evaluated. Document any prior results and negotiation positions. Discuss with your supervisor and adjust risk and the planned procedures accordingly. b. For each individual selected, identify the applicable Cap, determine whether the proposed amounts comply, and classify costs in excess of the Cap as unallowable per FAR 31.205-6(p), prior to proceeding with the reasonableness testing.	

MASTER AUDIT PROGRAM

Evaluate Compensation Reasonableness	
5. Thoroughly read each position description and determine whether it is sufficiently described to match a survey description. If inadequate, obtain other documents describing the position's duties and functions. If it remains inadequate or altogether absent, document this fact, and discuss with your supervisor whether additional procedures are required to effectively match the position to survey data.	
6. Identify the best fit compensation survey for each selected job/position, finding the best match of the company's revenue, industry, geographic location (area from which employees are recruited and lost), and participation by companies not performing government contracts. Adjust these factors considering the skill complexity of each tested position (e.g., advanced engineers are often recruited nationally while entry level engineers are not). Apply professional skepticism before using a contractor provided survey, especially if you determine the contractor did not use the survey for its own market pricing, or if the contractor used a single survey to benchmark all position classifications. Document your rationale if choosing not to use the contractor-provided survey. Select the appropriate survey for each position classification and document your rationale.	
7. If the contractor sets base salary higher than market median, consider the merits of the justification, as well as the contractor's financial performance, and document your conclusions. Determine the appropriate percentile for market pricing each position at the appropriate level, generally limited to the range between the 25th and 75th percentiles. Document the rationale for your determination.	
8. Determine if the contractor is following its established policy or procedure for issuing bonuses and that the award of the bonus takes place.	
9. Update the survey amounts by applying the appropriate escalation factor to the mid-point of the contractor's Fiscal Year.	
10. Appropriately consolidate the individual survey results.	
11. Determine if the company's allowable fringe benefits are below market level. If below market, consider the prevailing circumstances before adding an "offset" equal to the difference between the company's allowable fringe benefits and the market fringe benefits.	

12. Determine if the contractor is claiming Long Term Incentive (LTI) compensation, or whether the circumstances call for a LTI offset. Ensure any LTI is evaluated for allowability and reasonableness. No offset consideration is necessary if you used a total direct compensation survey benchmark, or if LTI plans or LTI awards are not prevalent under the contractor's circumstance (typically only prevalent when company sales > $300 million). If LTI compensation is deemed appropriate, ensure it: • Only includes allowable cost components, • Is founded using a reasonable base salary, and • Is consistent with the best fit survey data.	
13. For each selection, compare the proposed compensation to the reasonable compensation level and question the difference.	
14. Summarize and Communicate Results	
15. For each selection, document the conclusion, basis of proposed cost, and audit evaluation. Provide the FAO the documentation necessary to understand the evaluation, and to meet our professional standards.	
16. Communicate the results with the FAO audit team and discuss the findings with the contractor as appropriate. Address questions and contractor rebuttals as necessary through the FAO. If significant exceptions, offer to attend negotiations.	

A-01	**Concluding Steps**	**WP Reference**
Version 7.0, dated February 2021		
1. Summarize and document the audit results.		
2. Obtain supervisory/management review of the working papers and audit results.		
3. After management approval, conduct and document an exit conference with contractor representative(s) in accordance with procedures specified in CAM 4-304.		
4. Draft audit report in accordance with CAM 10-200 and any special circumstances that affect the report.		
5. Auditors should communicate with the contracting officers upon the completion of the audit and document the communications:		
a. Brief the requestor/contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues.		

b. Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.	
6. Complete the administrative working papers.	
7. If the evaluation disclosed major or recurring cost estimating deficiencies, a report on such deficiencies should be drafted immediately and submitted to the contractor for comment. This procedure will provide for issuing the deficiency report at the same time or shortly after the proposal audit report is issued. (CAM 9-310).	
8. Related CAS noncompliance reports, if any, should be referenced in the audit report, and should be issued generally at the same time as the proposal audit report, if possible.	
9. Update permanent file.	
10. Based on the recommended forward pricing rates, determine need for revision of billing rates (CAM 9-1206c).	
11. Submit the working paper package and draft report to the supervisor/manager for final review and processing.	