

MASTER AUDIT PROGRAM

Activity Code 42000	Truth in Negotiations Audit
B-1 Planning Considerations	Version 14.0, dated Apr 2026
Type of Service - Attestation Examination Engagement	
Audit Specific Independence Determination	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment.</p> <p><i>(Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team or who are performing as a consultant have signed this working paper. For example, an FAO may add additional auditors (e.g., technical specialists) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p>	
Purpose, Scope, and References can be found on WP 10T.	

B-1 Risk Assessment	WP Reference
Version 14.0, dated Apr 2026	
<i>At any time during the risk assessment, if the audit team determines that the overall risk is minimal, document the rationale used to make the determination, discuss with the PCO and contractor, and prepare a memorandum notifying the PCO and contractor that the assignment has been terminated. Additionally, prepare a memorandum for the record (WP 01a) to document closing of the assignment.</i>	
1. Complete the TIN Checklist and identify any specific concerns requiring further consideration during the audit.	
2. Determine if final payment has taken place and confirm the date. The audit team should verify several sources (e.g., DFAS final payment notice) for accuracy and document the details of the verification. The right to examine contractor records expires three years after final payment; therefore, determining an accurate date of final payment is essential to the audit.	
3. Notify the appropriate contracting officer that we are assessing the need for a Truth in Negotiations (10 U.S.C. Chapter 271) compliance audit on the subject contract and confirm the contracting officer relied on the submitted cost or pricing data.	
4. Notify the contractor that we will be performing risk assessment procedures and that you will be contacting them to coordinate a date for a walkthrough of its final certified position and the major events associated with this pricing action.	

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B-1 Risk Assessment	WP Reference
5. Obtain or brief the contract, including modifications, to identify and document pricing actions that only have an effect on the contract price. (See Contract Brief pro forma, WP 14.)	
6. Analyze the PNM and any attached or referenced documents (e.g., pre-negotiation memorandum) to identify and document areas of potential risk for defective pricing.	
7. Review of Permanent Files and Audit Leads Using the framework of WP B-04, review contractor permanent files and audit leads to determine if there are areas of risk or potential material misstatement that should be considered when designing audit procedures.	B-04
8. Fraud Risk Indicators Using the framework in WP B-09, discuss the fraud risk indicators with the audit team.	B-09
9. Determine an initial audit baseline for the risk assessment phase of the audit in order to determine the materiality of the cost elements and to identify the cost elements needing an overrun/underrun analysis performed.	
10. Materiality, Sensitivity, and Inherent Risk Factors – Document and determine materiality. Evaluate inherent risk factors and determine impact on scope.	
11. Perform an Overrun/Underrun Analysis by materially significant cost element. If the team identifies significant overruns, consider/inquire about the potential for offsets to possible recommended price adjustments.	
12. For significant Inter-Organizational Transfers (IOT) and Subcontractors, assess the risk of defective pricing based on the IOT's and Subcontractor's submitted cost or pricing data. Assess the need for requesting assist audits.	
13. Coordinate a date with the contractor to provide a walkthrough of its final certified position and the major events associated with this pricing action. Invite the PCO.	
14. Go/No-Go Determination. Determine the overall risk that the contract price was materially increased due to defective certified cost or pricing data. Discuss with the audit team the evidence obtained through the accomplishment of the previous procedures.	
15. Begin preparing the Chronology of Significant Events (WP A) with key dates that may include the following: <ul style="list-style-type: none"> • Certification date • Initial audit report date • Date of last proposal before certification • Date of final sweep, if applicable 	

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B-1 Risk Assessment	WP Reference
16. Document your understanding of internal controls the contractor used to ensure the cost or pricing data on the elements/sub-elements selected above, complied with 10 U.S.C. Chapter 271 using the framework of WP B-02 (e.g., required comprehensive sweep, if applicable, required real-time documentation of negotiations with suppliers, etc.).	
17. Identify those areas that require a request for specialist assistance and/or audit assistance and document on WP B-03. If the need for specialist assistance and/or assist audits is subsequently identified, B-03 should be modified, as appropriate.	
18. Conduct an audit team meeting to discuss inherent risk, preliminary understanding of control risk factors, the cost elements/sub-elements that are significant to the audit, document the risk-based rationale, and obtain approval.	
19. Conduct an entrance conference with both the contractor and the Contracting Officer. Confirm the audit team's understanding of the cost or pricing data and the potential of undisclosed data. Discuss the availability of required data and personnel necessary to timely support the audit. If a subcontract, obtain the subcontractor's written consent for release of the audit report to the prime, or reason(s) for not authorizing release.	
20. Management Inquiries During the entrance conference or other appropriate meeting make the GAGAS required inquiries of contractor management. Using the framework of WP B-05, document the contractor's response, and identify areas of risk and the impact to the audit scope.	B-05
21. Send a formal acknowledgement letter to the appropriate contracting officer.	
22. Send a formal notification letter to the contractor.	
23. Summarize in WP B the results based on inherent risk and your preliminary understanding of control risk factors, identify the cost elements that are significant to your audit and document the risk-based rationale. Tailor the detailed audit steps to ensure the tests of details are responsive to the assessed risk.	

D-1 Direct Labor Rates	WP Reference
Version 14.0, dated Apr 2026	
<p>This -01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP section can be deleted.</p> <p>Based on the risk assessment and the understanding and analysis performed, the steps below should be modified to reflect the evaluation of detailed testing</p>	

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D-1 Direct Labor Rates	WP Reference
that needs to be completed to express an opinion. The steps below cover basic audit steps for direct labor rates but may not be applicable to your audit based on the analysis and understanding.	
1. Refine overrun/underrun analysis for significant direct labor rates using the baseline and actual direct labor rates incurred by category to determine if significant variances exist. Based on the results and the risk assessment, select direct labor rates for evaluation and document your rationale.	
2. Determine if there was data/information available that was not disclosed as of the date of the agreement on price regarding direct labor rates. Below are suggestions that can be utilized to perform this analysis but are not mandatory. <ul style="list-style-type: none"> • Evaluate historical data for direct labor rates to ensure it was disclosed and is accurate, complete, and current • Compare baseline direct labor rates to those included in the contractor's bidding rate submission or rate agreement in effect as of the date of price agreement • Assess whether changes to management approved labor rates shortly after the certification date were known but not disclosed prior to price agreement • Review union agreements and determine if agreed-to union rates were available but not used or disclosed • Identify any planned organizational changes, promotions, or staffing mix changes that would affect labor rates but were not disclosed. 	
3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	D-02
4. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and obtain the required certification.	
5. Summarize the preliminary results and determine the materiality of potential defective pricing. Discuss with the supervisor to confirm findings and identify the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective. <i>If no material potential defective pricing was identified, finalize notes in W/P D.</i> <i>If material potential defective pricing was identified, continue with the following steps.</i>	

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D-1 Direct Labor Rates	WP Reference
6. Verify that the Government did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
7. Calculate the recommended price adjustment using an appropriate baseline direct labor costs and the associated costs and profit.	
8. Prepare a draft report note and a full description of how each of the five elements of defective pricing were met for each of the individual findings.	

E-1 Labor Hours	WP Reference
Version 14.0, dated Apr 2026	
<p>This -01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted</p> <p>Based on the risk assessment and the understanding and analysis performed, the steps below should be modified to reflect the evaluation of detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps for direct labor hours but may not be applicable to your audit based on the analysis and understanding.</p>	
1. Refine your overrun/underrun analysis for the significant direct labor hours using baseline <i>labor</i> hours to actual or estimates at completion (EAC) labor hours at a more detailed level (e.g., by labor category, tasking function, major section of Statement of Work (SOW), etc.) to determine if significant variances exist. Based on the results and the risk assessment, select direct labor hours for evaluation and document your rationale.	

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E-1 Labor Hours	WP Reference
<p>2. Determine if there was data/information available that was not disclosed as of the date of the agreement on price regarding direct labor hours. Below are suggestions that can be utilized to perform this analysis but are not mandatory.</p> <ul style="list-style-type: none"> • Evaluate historical data for direct labor hours to ensure it was disclosed and is accurate, complete, and current • When judgment was the basis of estimate, determine if more relevant historical data was available but not disclosed • Assess whether labor standards used were the most current available as of the certification date and if any changes were known but not disclosed • Determine if improvement curves included all applicable units and hours, and if any exclusions or limitations were not disclosed • Evaluate Cost Estimating Relationships (CERs) to ensure they were current and that the methodology was properly disclosed. 	
<p>3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	E-02
<p>4. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification.</p>	
<p>5. Summarize the preliminary results and determine the materiality of potential defective pricing. Discuss with the supervisor to confirm findings and identify the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective.</p> <p><i>If no material potential defective pricing was identified, finalize notes in W/P E.</i></p> <p><i>If material potential defective pricing was identified, continue with the following steps.</i></p>	
<p>6. Verify that the Government did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.</p>	
<p>7. Calculate the recommended price adjustment using the appropriate baseline direct labor costs and the associated costs and profit.</p>	

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E-1 Labor Hours	WP Reference
8. Prepare a draft report note including a full description of how each of the five elements of defective pricing were met for each of the individual findings.	

F-1 Material	WP Reference
Version 14.0, dated Apr 2026	
<p>This -01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted</p> <p>Based on the risk assessment and the understanding and analysis performed, the steps below should be modified to reflect the evaluation of detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps for material but may not be applicable to your audit based on the analysis and understanding.</p>	
<p>1. Refine your overrun/underrun analysis for significant direct material using the baseline direct material amounts/prices to actual or estimates at completion (EAC) direct material amounts/prices at a more detailed level. This could be done by category of material, tasking function, major section of Statement of Work (SOW), part number, etc. to help focus your evaluation. Based on the results and the risk assessment, select items for evaluation and document your rationale.</p>	
<p>2. Determine if there was data/information available that was not disclosed as of the date of the agreement on price regarding direct material. Below are suggestions that can be utilized to perform this analysis but are not mandatory.</p> <ul style="list-style-type: none"> • Evaluate historical material data for accuracy, completeness, and currency. • Review purchase order history and buyer’s file for evidence of lower unit prices known before price agreement • Review the complete buyer’s file (e.g. quotes, negotiation summary, correspondence, PO, etc.) to determine if records existed prior to the certification date indicating the lower unit price was known (e.g., quote received, correspondence, PO placed, counter offers from supplier • Assess changes in suppliers, kind, or quantity of materials • Identify risks of duplicate parts or overstated material costs in the absence of a consolidated bill of materials. • Verify material additive rates/factors (e.g., rework, scrap) and ensure no double counting of costs. • Confirm all applicable material costs (e.g., commercial or Foreign Military Sales) were included in the baseline proposal. • Ensure direct materials are classified consistently. • Assess the impact of make-or-buy decisions and engineering changes. 	

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F-1 Material	WP Reference
3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	F-02
4. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification.	
<p>5. Summarize the preliminary results and determine the materiality of the potential defective pricing. Discuss with the supervisor to confirm findings and identify the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective.</p> <p><i>If no material potential defective pricing was identified, finalize notes in W/P F.</i></p> <p><i>If material potential defective pricing was identified, continue with the following steps.</i></p>	
6. Verify that the Government did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
7. Calculate the recommended price adjustment using the appropriate baseline direct costs and the associated costs and profit.	
8. Prepare a draft report note including a full description of how each of the five elements of defective pricing were met for each of the individual findings.	

G-1 Inter-organizational Transfers (IOT)	WP Reference
Version 14.0, dated Apr 2026	
<p>This -01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted</p> <p>Based on the risk assessment and the understanding and analysis performed, the steps below should be modified to reflect the evaluation of detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps for IOTs but may not be applicable to your audit based on the analysis and understanding.</p>	

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G-1 Inter-organizational Transfers (IOT)	WP Reference
<p>1. Refine the overrun/underrun analysis for significant IOTs using the estimates at completion (EAC) obtained directly from the contractor or obtained from the cognizant DCAA office. Identify those IOTs with significant variances and design additional procedures to determine if the IOT's cost or pricing data were accurate, complete, and current. Based on the results and the risk assessment, select items for evaluation and document your rationale.</p>	
<p>2. Determine if there was data/information available that was not disclosed as of the date of the agreement on price regarding IOTs. Below are suggestions that can be utilized to perform this analysis but are not mandatory.</p> <ul style="list-style-type: none"> • Review historical cost data for IOTs to ensure it was disclosed and is accurate, complete, and current. • Determine if the contractor disclosed actual incurred costs for IOTs completed before price agreement. • Verify that the contractor provided the most relevant and current internal cost estimates or historical data available at the time of price agreement. • Ensure that profit was excluded from the prime contractor's price (FAR 31.205-26(e)). • Ensure no duplicate costs were included in the proposed IOT costs (e.g., costs included in both direct and indirect cost pools). • Identify any substitutions in materials, components, or services related to IOTs and confirm whether these changes were disclosed. • Assess whether make-or-buy decisions or other internal changes affecting IOT costs were disclosed before price agreement. 	
<p>3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	G-02
<p>4. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and obtain the required certification.</p>	
<p>5. Summarize the preliminary results and determine the materiality of potential defective pricing. Discuss with the supervisor to confirm findings and identify the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective.</p> <p><i>If no material potential defective pricing was identified, finalize notes in W/P G.</i></p> <p><i>If material potential defective pricing was identified, continue with the following steps.</i></p>	
<p>6. Verify that the Government did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that</p>	

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G-1 Inter-organizational Transfers (IOT)	WP Reference
<p>would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.</p>	
<p>7. Calculate the recommended price adjustment using the appropriate baseline IOT costs and the associated costs and profit.</p>	
<p>8. Prepare a draft report note including a full description of how each of the five elements of defective pricing were met for each of the individual findings.</p>	

H-1 Subcontracts	WP Reference
<p>Version 14.0, dated Apr 2026</p>	
<p>This -01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted.</p> <p>Based on the risk assessment and the understanding and analysis performed, the steps below should be modified to reflect the evaluation of detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps for subcontracts but may not be applicable to your audit based on the analysis and understanding.</p>	
<p>1. For each significant subcontractor with an identified risk, obtain the subcontract agreement and find the baseline amount. Identify those subcontracts with significant variances for further evaluation.</p>	

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H-1 Subcontracts	WP Reference
<p>2. Determine if there was data/information available that was not disclosed as of the date of the agreement on price regarding subcontracts. Below are suggestions that can be utilized to perform this analysis but are not mandatory:</p> <ul style="list-style-type: none"> • Review the buyer’s file to identify records that existed prior to the prime certification date indicating a lower subcontract price was known. • Assess whether subcontractor quotes, purchase orders, or correspondence showed lower prices that were not disclosed. • Determine if the subcontractor provided updated quotes or revised pricing prior to price agreement and whether these were disclosed. • Evaluate whether the prime contractor performed a cost or price analysis of the subcontractor proposal and whether the analysis identified lower costs that were not disclosed. • Identify any changes in subcontractor selection, scope, or terms that occurred prior to price agreement but were not disclosed. • Review subcontractor historical cost data to determine if it was available and disclosed to the Government. 	
<p>3. If additional findings during the evaluation reveal risks not previously identified in the risk assessment, request an assist audit from the cognizant DCAA office. Document the rationale for the request and coordinate with the appropriate audit team.</p>	
<p>4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	H-02
<p>5. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification.</p>	
<p>6. Incorporate the results of any assist audits received, if applicable.</p>	
<p>7. Summarize the preliminary results and determine the materiality of potential defective pricing. Discuss with the supervisor to confirm findings and identify the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective.</p> <p><i>If no material potential defective pricing was identified, finalize notes in W/P H.</i></p> <p><i>If material potential defective pricing was identified, continue with the following steps.</i></p>	

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H-1 Subcontracts	WP Reference
8. Verify that the Government did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
9. Calculate the recommended price adjustment using the appropriate baseline subcontract costs and the associated costs and profit.	
10. Prepare a draft report note including a full description of how each of the five elements of defective pricing were met for each of the individual findings.	

I-1 Indirect Rates & Factors	WP Reference
Version 14.0, dated Apr 2026	
<p>This -01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted</p> <p>Based on the risk assessment and the understanding and analysis performed, the steps below should be modified to reflect the evaluation of detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps for indirect rates and factors but may not be applicable to your audit based on the analysis and understanding.</p>	
1. Refine overrun/underrun analysis for significant indirect rates and factors using the baseline and actual indirect rates incurred to determine if significant variances exist. Based on the results and the risk assessment, select items for evaluation and document your rationale.	
<p>2. Determine if there was data/information available that was not disclosed as of the date of the agreement on price regarding indirect rates and factors. Below are suggestions that can be utilized to perform this analysis but are not mandatory.</p> <ul style="list-style-type: none"> • Evaluate historical data for indirect rates and factors to ensure it was disclosed and is accurate, complete, and current. • Compare baseline rates to bidding rate submissions or rate agreements in effect as of the date of price agreement to identify undisclosed variances. • Identify any planned events affecting indirect costs (e.g., equipment sales, facility closures, organizational changes) that were known prior to price agreement but not disclosed. 	

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I-1 Indirect Rates & Factors	WP Reference
<ul style="list-style-type: none"> • Assess whether significant business base changes or contract mix changes were known but not disclosed prior to price agreement. • Determine if any Forward Pricing Rate Agreement (FPRA) negotiations or rate changes occurred prior to price agreement that were not disclosed. • Evaluate changes in cost pool composition (e.g., inclusion or exclusion of specific cost elements) that were known prior to price agreement but not disclosed. • Assess changes in base allocation methods (e.g., direct labor hours vs. direct labor dollars) that were known prior to price agreement but not disclosed. • Identify any unallowable costs included in the indirect cost pools that were known prior to price agreement but not disclosed. 	
<p>3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	I-02
<p>4. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification.</p>	
<p>5. Summarize the preliminary results and determine the materiality of potential defective pricing. Discuss with the supervisor to confirm findings and identify the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective.</p> <p><i>If no material potential defective pricing was identified, finalize notes in W/P I.</i></p> <p><i>If material potential defective pricing was identified, continue with the following steps.</i></p>	
<p>6. Verify that the Government did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare and send a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.</p>	
<p>7. Calculate the recommended price adjustment using the appropriate baseline indirect costs and the associated costs and profit.</p>	
<p>8. Prepare a draft report note including a full description of how each of the five elements of defective pricing were met for each of the individual findings.</p>	

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J-1 Other Direct Costs (ODC)	WP Reference
Version 14.0, dated Apr 2026	
<p>This -01 should only be completed if the cost element was determined to be material/sensitive in the risk, if it was not, the entire WP can be deleted</p> <p>Based on the risk assessment and the understanding and analysis performed, the steps below should be modified to reflect the evaluation of detailed testing that needs to be completed to express an opinion. The steps below cover basic audit steps for ODCs but may not be applicable to your audit based on the analysis and understanding.</p>	
<p>1. Refine your overrun/underrun analysis for significant ODCs using the baseline extended costs to actual or estimates at completion (EAC) extended costs at a more detailed level (e.g., travel, consultant). Based on the results and risk assessment, select items for evaluation and document your rationale.</p>	
<p>2. Determine if there was data/information available that was not disclosed as of the date of the agreement on price regarding ODCs. Below are suggestions that can be utilized to perform this analysis but are not mandatory.</p> <ul style="list-style-type: none"> • Review purchase history and buyer’s files to identify any lower costs known prior to price agreement but not disclosed. • Evaluate historical data for ODCs to ensure it was disclosed and is accurate, complete, and current. • Identify any planned changes in travel policies, consultant rates, or other ODC elements that were known but not disclosed. • Determine if any volume discounts, rebates, or cost reductions were available but not disclosed. • Assess whether substitutions in suppliers or service providers resulted in lower costs that were not disclosed. 	
<p>3. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	J-02
<p>4. If the audit team discovers potential offsets during evaluation, keep separate and notify the contractor and contracting officer in writing of potential offsets, and request the required certification.</p>	
<p>5. Summarize the preliminary results and determine the materiality of potential defective pricing. Discuss with the supervisor to confirm findings and identify the connection between the FAR 2.1 definition of cost or pricing data and the data identified as defective.</p> <p><i>If no material potential defective pricing was identified, finalize notes in W/P J.</i></p> <p><i>If material potential defective pricing was identified, continue with the</i></p>	

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J-1 Other Direct Costs (ODC)	WP Reference
<i>following steps.</i>	
6. Verify that the Government did not identify the factual data in a pre-award evaluation. Discuss with the contractor and Procuring Contracting Officer (PCO) to determine if there is any additional information available that would change the results. Prepare a confirmation memorandum. After coordinating with the supervisor, send to the PCO requesting that he/she confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	
7. Calculate the recommended price adjustment using the appropriate baseline of other direct costs and the associated costs and profit.	
8. Prepare a draft report note including a full description of how each of the five elements of defective pricing were met for each of the individual findings.	

K-1 Offsets	WP Reference
Version 14.0, dated Apr 2026	
<i>Although audit procedures should not be specifically designed to seek out offsets, the auditor should notify the contractor and the contracting officer in writing of potential offsets. Until the contractor provides the required certification for its offset submission, DCAA should neither adjust the findings nor expend additional resources on the alleged offsets.</i>	
If the offsets are certified , develop audit procedures and evaluate them in the associated section of the audit program. Prepare draft report note(s) for offsets in working paper K. Coordinate with your supervisor and provide the PCO the offsets. The audit team should request the PCO to confirm that the contractor did not disclose the factual data and that he/she relied on the defective data. Discuss with the supervisor any information provided by the contractor or PCO.	

A-1 Concluding Steps	WP Reference
Version 14.0, dated Apr 2026	
1. Determine the status of any requested assist audits and/or requests for specialist assistance.	
2. Summarize and document the results of audit.	
3. Obtain supervisory/management review and approval of the working papers and draft audit report before discussions with the contractor.	

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A-1 Concluding Steps	WP Reference
4. If there is suspected fraud or other illegal acts, complete a DCAA Form 2000. Do not release or disclose to the contractor information relating to a matter referred for investigation.	
5. Brief the contracting officer on the results of audit and invite to the exit conference.	
6. Develop audit leads for consideration in future proposal evaluations or estimating and accounting system audits.	
7. If the examination is of a subcontractor, notify the prime contractor auditor about the forthcoming report.	
8. After management approval, conduct and document an exit conference with the contractor.	
9. Draft audit report.	
10. Complete the administrative working papers.	
11. Update the perm file as appropriate.	
12. Submit the working paper package and draft report to the supervisor/manager for final review and processing.	