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<b>Activity Code 24010</b>		<b>Estimating System Survey (ICR)</b>
<b>Version 5.0, dated April 2004</b>		
<b>B-1</b>	<b>Planning Considerations</b>	
<b>Purpose and Scope</b>		
The major objectives of this audit are to:		
<ul style="list-style-type: none"> <li>• Obtain a sufficient understanding of the contractor's estimating system and related internal controls (including both manual and computerized activities) to plan the related contract audit effort. This requires that the auditor assess the adequacy of the contractor's policies and procedures, whether they have been implemented, and if they are working effectively.</li> </ul>		
<ul style="list-style-type: none"> <li>• Document the understanding of the estimating system internal controls in working papers and permanent files (see CAM 5-100).</li> </ul>		
<ul style="list-style-type: none"> <li>• Test the operational effectiveness of estimating system internal controls.</li> </ul>		
<ul style="list-style-type: none"> <li>• Assess control risk as a basis to identify factors relevant to the design of substantive tests.</li> </ul>		
<ul style="list-style-type: none"> <li>• Report on the understanding of the estimating system internal controls, assessment of control risk, and the adequacy of the system for Government contracts.</li> </ul>		
<p>This audit is limited to the estimating system and related internal controls for major contractors, nonmajor contractors where the system is considered significant, and other contractors with substantial negotiated firm-fixed price contracts. Only those controls directly related to the contractor's estimating system, as defined below, will be audited under this assignment. Controls for interrelated audit concerns regarding the adequacy of the contractor's other major systems (i.e., labor, budget and planning, etc.) will be audited under separate assignments. While the controls for these areas are not part of this audit, the results of all audits of these interrelated controls must be considered in forming an overall audit conclusion on the estimating system internal controls. The results of this audit should be commented on in reports on related audit areas.</p>		
<p>When performing an update or follow-up examination, the audit steps should be adjusted and tailored accordingly. To the extent possible, prior audit effort should be used as a basis for validating the contractor's internal controls.</p>		
<p>Before beginning this examination, the auditor should be alert for internal evaluations performed by the contractor or its external auditors relating to this audit area. In those cases where internal control evaluations have been performed, the auditor should follow the guidance contained in CAM 4-1000, Relying Upon the Work of Others.</p>		
<p>Before performing any examination of internal controls, the auditor should determine that the system contemplated for examination is material to the Government. Once it is</p>		

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<p>determined that the system is material to the Government, the auditor should reassess the materiality for each section in the internal controls audit before performing any audit steps in that section. The scope of any audit depends on individual circumstances. The auditor is expected to exercise professional judgment, considering vulnerability and materiality, in deciding the scope of audit to be performed.</p>
<p>The use of computers of all kinds in a contractor’s accounting and management systems is so pervasive it is unlikely that any audit of them could be performed adequately without an examination of the internal controls over their automated aspects. Therefore, the auditor should become familiar with guidance contained in the Information System (IS) Auditing Knowledge Base that is contained on DCAA’s Intranet, prior to the initiation of this audit. In addition, in some instances, the assistance of IT specialists may be required to adequately evaluate the automated aspects of the internal controls. In these cases, auditors should coordinate through their supervisory auditor to contact their regional offices to obtain the necessary expertise.</p>
<p>The internal control matrix (ESTG-Internal Control Matrix.doc) showing the interrelationships among the control objectives, control activities, and audit procedures used in this audit program is located in APPS under "Other Audit Guidance" . The control objectives and the audit procedures have been fully integrated into this audit; therefore, the matrix is not needed unless it is desirable to see the associated control activities and the interrelationships in a matrix format.</p>
<p>The following documents are available in APPS under “Other Audit Guidance” to assist the auditor in preparing the vulnerability assessment, working papers, letters, and reports required for this survey. If used in the audit, they must be tailored to fit the circumstances.</p>
<ul style="list-style-type: none"><li>• EST-Announcement Ltr to Contractor.doc</li></ul>
<ul style="list-style-type: none"><li>• EST-Experience Info Worksheet - Bid Proposals.doc</li></ul>
<ul style="list-style-type: none"><li>• EST-Experience Info Worksheet - Other.doc</li></ul>
<ul style="list-style-type: none"><li>• EST-Interview Questionnaire.doc</li></ul>
<ul style="list-style-type: none"><li>• EST-Notification Memo to ACO.doc</li></ul>
<ul style="list-style-type: none"><li>• EST-Notification Memo to PCO.doc</li></ul>
<b>References</b>
<ol style="list-style-type: none"><li>1. CAM 3-300 Internal Control Audit Planning Summary (ICAPS)</li></ol>
<ol style="list-style-type: none"><li>2. CAM 5-1200 Audit of Estimating System Internal Controls</li></ol>
<ol style="list-style-type: none"><li>3. CAM 9-303 Contractor Estimating Methods and Procedures-Cost Estimates</li></ol>
<ol style="list-style-type: none"><li>4. CAM 10-400 Audit Reports on Operations and Internal Control (System Audits)</li></ol>
<ol style="list-style-type: none"><li>5. DFARS 215.407-5 Estimating Systems</li></ol>

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<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
1.	<b>Research and Planning</b>	
a.	Become familiar with applicable sections of CAM 5-1200, and any recent Headquarters guidance not incorporated in the CAM located on the DCAA’s intranet under DCAA Audit/Administrative Guidance.	
b.	Perform the steps below using the permanent file:	
	(1) Review prior estimating system audit working paper package.	
	(2) Identify any flash estimating system reports issued (review ICRS database, as applicable).	
	(3) Determine if there are any reported deficiencies in the other internal control system audits that impact the scope of this estimating system audit (review the ICRS database, as applicable).	
	(4) Identify the sources for the detailed policies, procedures, charts, etc., called for in steps (a) through (d) below, and then prepare appropriate working papers/spreadsheets listing the data, referencing its source, and identifying any changes since the last system audit.	
	(a)Contractor estimating policies and procedures/estimating manual.	
	(b)Organization charts depicting the functional areas responsible for developing and processing of estimating system related data.	
	(c)Estimating system flowcharts providing a pictorial overview of all manual and computerized processing steps.	
	(d)Information systems documentation:	
	(i)Pertinent record layouts of files created and/or used during the processing of estimating system related transactions.	
	(ii)Database table definitions.	
	(iii)Source documents.	
	(iv)Information on the conversion of documents to computer	

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media.	
(v)Subsidiary or master files affected by the system.	
(vi)Relevant reports, journals, and ledgers produced in the flow of information to the estimating system reports.	
(5) Review audit lead sheets.	
(6) Review other related audits.	
(a) Review bid proposals (or comparable assignment log) and summarize the findings in pricing proposal activity. Complete EST-Experience Info Worksheet – Bid Proposals, if applicable.	
(b) Review and summarize the impact of noted defective pricing, suspected irregular conduct (SIC), and related CAS noncompliances. Complete EST-Experience Info Worksheet – Other, if applicable.	
(c) Review files containing telephone requests for specific information and determine if there were any inconsistent estimating practices noted that impact the scope of this audit.	
(7) Consider the impact of the contractor’s financial condition on the estimating system.	
c. In planning and performing the examination, consider the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:	
<ul style="list-style-type: none"> <li>• Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH7600.3, APO March 31, 1993) located at <a href="http://www.dodig.osd.mil/PUBS/index.html">www.dodig.osd.mil/PUBS/index.html</a>, and</li> </ul>	
<ul style="list-style-type: none"> <li>• CAM Figure 4-7-3.</li> </ul>	
Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually or in combination). This should be done at the planning stage of the audit, as well as during the audit, if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.	
d. Obtain from the contractor its listing of proposals for the past twelve months (or most recent completed fiscal year) and summarize by customer, contract type, and dollar volume in order to determine the materiality of the estimating system.	
e. Discuss the planned audit of the estimating system internal controls with the administrative contracting officer and, if appropriate, other customers to identify, understand, and <b>document</b> any concerns they	

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may have or areas which should be evaluated.	
f. Coordinate with other DCAA offices (including FD) cognizant of other contractor segments to determine if any estimating-related system deficiencies should be considered in this audit. Also, coordinate and request any necessary assist audits at locations that perform effort affecting the estimating system. Document your need for assist audits on working paper B-3.	
g. Determine the extent and results of the contractor’s self-governance activities (e.g., Defense Industry Initiative), internal and external audits, coordinated team audits (DCMA/DCAA), etc., related to the estimating system.	
(1) Review a list of completed internal and external audits and determine if any are related to the estimating system.	
(2) If applicable, coordinate with the CAC or corporate office auditors to determine if any internal control weaknesses that might impact the estimating system were identified in management’s internal control report or the independent auditor’s attestation on management’s assertion included in the annual report filed with the SEC.	
(3) In those cases where internal or external audits have been performed, the auditor should follow the guidance contained in CAM 4-1000, Relying Upon the Work of Others. Document your preliminary evaluation and its impact on the scope of this examination. The reviewing and testing of internal audit working papers may be accomplished in Section G-1, step 3.	
h. Determine the need for technical specialist assistance and document your consideration on working paper B-3.	
<b>2. Entrance Conference and Preparation</b>	
a. Prepare a written memorandum to the contractor to arrange for an entrance conference covering the areas highlighted in CAM 4-302, and any specific data or pertinent information not yet provided.	
b. Conduct an entrance conference as outlined in CAM 4-302, with particular emphasis on:	
(1) Obtaining, if applicable, a system orientation briefing or demonstration of the estimating system transaction flow, including data input, data processing, data output, and related internal controls.	
(2) Determining any changes in the estimating process since the last	

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examination.	
(3) Discussing the contractor’s monitoring process to ensure that established manual and computerized controls are functioning as intended.	
(4) Discussing any identified weaknesses which may have been previously reported, and related follow-up actions taken.	
<b>3. Other Preliminary Steps</b>	
a. Determine the degree a computerized system is used in the estimating process.	
b. Perform a high level cursory assessment to determine if the following exist:	
(1) A functional organization with defined organizational responsibilities.	
(2) A written description of the work flow in the estimating process.	
(3) Policies and procedures for effectively controlling the estimating process.	
<b>4. Initial Risk Assessment</b>	
Using the information obtained in steps 1, 2, and 3, prepare an initial risk assessment (completion of working paper B) to determine the scope of the examination, and document the nature and extent of control testing to be performed for each control objective in the table on working paper B.	

<b>C-1</b>	<b>Control Environment</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of the estimating system internal controls.		

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1. Obtain a copy of the most recently completed ICAPS for the Control Environment and Overall Accounting Controls. Evaluate the rationale behind any moderate or high-risk assessment ratings and determine the impact, if any, on the effectiveness of the estimating system internal controls.	
2. If an examination of the control environment has not been recently performed, evaluate all documented prior audit experience with the contractor, including permanent files, relevant audit reports and workpapers, suspected irregular conduct (SIC) referrals, and discussions with prior auditors. Obtain an understanding of the following factors:	
a. Integrity and ethical values.	
b. Commitment to competence.	
c. Board of directors and/or audit committee participation.	
d. Management’s philosophy and operating style.	
e. Organizational structure.	
f. Assignment of authority and responsibility.	
g. Human resource policies and procedures.	
3. Document the overall assessment of the control environment and the impact that it has on the examination of the estimating system.	

<b>D-1</b>	<b>Contractor’s Risk Assessment</b>	<b>WP Reference</b>
	<b>Version 5.0, dated April 2004</b>	
	The auditor should develop a sufficient understanding of the risk assessment process currently employed by the contractor in terms of its identification, analysis, and management of risks relevant to the preparation of contract cost data.	
	1. Meet with responsible personnel to obtain an overview of the various risk factors considered by management.	
	2. Once the various risk factors are identified, obtain an understanding of how management identifies the risks, estimates the significance of risks, assesses the likelihood of their occurrence, and relates them to contract reporting.	
	3. If applicable, obtain an overview of any plans, programs, or actions management may initiate to address specific risks. Keep in mind that, depending on the nature of specific risks, management may elect to accept a given risk due to costs or other considerations.	

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4. Document your overall understanding of the contractor’s risk assessment practices.	
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<b>E-1</b>	<b>Information and Communications</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
Information and communication processes consist of the methods and records established to record, process, summarize, and report contract cost data. The auditor should develop a sufficient understanding of the contractor’s information and communication processes (relevant to contract cost data) to identify significant classes of transactions and how they are initiated, processed, controlled, and reported.		
1.	Since the accounting and information systems are integral components of information and communication processes, obtain a copy of the most recently completed ICAPS for the Control Environment and Overall Accounting Controls and the IT Systems General Internal Controls. Consider the rationale behind any moderate or high-risk assessment ratings and determine the potential impact, if any, on the effectiveness of the estimating system internal controls. Document your evaluation.	
2.	Evaluate relevant permanent files, prior audit working papers, and any prior contractor demonstrations of its estimating system information and communication processes. Document your evaluation.	
3.	Determine if the contractor has made changes to the information and communication processes in its estimating system since the last demonstration. Evaluate the changes. If no prior systems demonstration was performed, have the contractor provide one. Contractor representatives providing the demonstration should possess a detailed knowledge of the estimating system. The demonstration provides the auditor an opportunity to query contractor personnel regarding internal controls and how they are monitored. The auditor should ensure that the demonstration addresses the internal control activities outlined in CAM 5-1200.	
4.	The contractor should include appropriate manual and computerized controls in its information processing that check for accuracy, completeness, and proper authorization of estimating related transactions. Have the contractor identify and demonstrate controls related to each of the areas listed in a. through e. below. Compare the contractor disclosed controls with the generic access control listing contained in the referenced CAM section and identify any controls not incorporated in the application. Verify the existence and	

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adequacy of the contractor disclosed controls. Discuss any apparent deficiencies with the contractor.	
a. Access Controls (CAM 5-1406.1)	
b. Data Input Controls (CAM 5-1406.2)	
c. Processing Controls (CAM 5-1406.3)	
d. Error Correction and Submission (CAM 5-1406.4)	
e. Output Controls (CAM 5-1406.5)	
5. Selectively trace estimated amounts through the estimating system to validate your understanding of the information and communication processes in the estimating system. Discrepancies between your understanding and the contractor’s demonstration should be resolved prior to completing the remainder of this examination.	
6. Document your confirmed understanding of the estimating system information and communication processes and obtain a written confirmation from the contractor indicating that they agree with this understanding. This documentation will typically take the form of system flowcharts or narrative descriptions, and can be prepared by the auditor or consist of documentation prepared by the contractor (see CAM 5-106).	

<b>F-1</b>	<b>Monitoring</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
Monitoring is a process that assesses the quality of internal control performance over time. It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. The auditor should develop a sufficient understanding of the contractor’s ongoing monitoring activities and/or separate evaluations related to the estimating system internal controls.		
1. Determine if ongoing monitoring procedures are incorporated into the normal recurring activities of the contractor’s organization. These procedures should include regular management and supervisory activities.		
2. Where applicable, determine the extent of internal audit involvement in performing monitoring functions through separate evaluations.		
3. Determine and document the extent of monitoring activities being performed by external parties.		
4. Document your overall understanding of the monitoring activity being performed at the contractor’s location, and determine the impact it will		

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have on our examination of the estimating system.	
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<b>G-1</b>	<b>Internal Audits</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
<p>The auditor should obtain an understanding of the contractor’s control activities (policies and procedures) for each relevant estimating system control objective. A detailed understanding of control activities is essential to the assessment of control risk for each objective. Estimating system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the ICM-ESTG. The audit procedures in sections G, H, I, J, and K, organized by control objective, are also included in the internal control matrix.</p>		
<p>The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated, and if reliance can be placed on such evaluations.</p>		
<p>The auditor should recognize those aspects of the contractor’s estimating system that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in working paper E (Information and Communications), as well as those set forth below.</p>		
<p>In performing the following audit procedures to understand the contractor’s control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor’s control activities.</p>		
<p>Management should periodically perform reviews of estimating policies and procedures to ensure that they comply with applicable Federal regulations, have been properly implemented, and are operating effectively.</p>		
<p>1. Evaluate contractor policies and procedures to determine if they require periodic reviews of established policies and procedures to ensure that:</p>		
<p>a. Policies and procedures are compliant with applicable Federal regulations.</p>		
<p>b. Policies and procedures have been implemented and are working effectively.</p>		

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c. Follow-up actions are taken on recommendations resulting from management reviews.	
2. Evaluate the contractor's record of completed internal audits and its current internal audit plan to determine if the estimating system is being subjected to periodic reviews in accordance with established policies and procedures.	
3. Identify any evaluations which may have an impact on this audit, and evaluate the audit reports and supporting working papers to determine if any system deficiencies were noted, and the extent to which we can rely on the work performed (see CAM 4-1000).	

<b>H-1</b>	<b>System Description</b>	<b>WP Reference</b>
	<b>Version 5.0, dated April 2004</b>	
	The auditor should obtain an understanding of the contractor’s control activities (policies and procedures) for each relevant estimating system control objective. A detailed understanding of control activities is essential to the assessment of control risk for each objective. Estimating system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the ICM-ESTG. The audit procedures in sections G, H, I, J, and K, organized by control objective, are also included in the internal control matrix.	
	The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated, and if reliance can be placed on such evaluations.	
	The auditor should recognize those aspects of the contractor’s estimating system that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in working paper E (Information and Communications), as well as those set forth below.	
	In performing the following audit procedures to understand the contractor’s control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor’s control activities.	
	Establish and maintain an estimating system description, including policies, procedures, and operating instructions compliant with FAR and DFARS.	

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1. Organization/Assignment of Responsibilities	
a. Obtain organization charts and written policies, procedures, and directives describing the organizational structure, and responsibilities of the estimating group(s) and contributing departments.	
b. Obtain flowcharts showing the flow of work in the estimating process and integration of data prepared by personnel responsible for various functions, such as accounting, cost control, budgeting, planning, purchasing, production control, engineering, estimating, and sales. Key decision and review points, and the time frame for the entire process, should be identified by the contractor.	
c. Determine if the following characteristics of an adequate system exist:	
(1) Lines of authority, duties, and responsibilities are clearly defined.	
(2) Coordination among the various segments of the organization responsible for different parts of the estimate.	
(3) Designation of individuals authorized to approve requests for preparing estimates.	
d. Interview selected employees involved in the proposal preparation process to determine if the actual responsibility for preparing, reviewing, and approving cost estimates is consistent with established policies and procedures.	
2. Policies and Procedures	
a. Determine if written policies are established at a high enough organizational level to allow for proper implementation.	
b. Determine if procedures are in writing and compatible with underlying policies.	
c. Determine if:	
(1) Policies, procedures, and other written instructions are disseminated to all employees responsible for putting the estimates together.	
(2) Revisions to policies, procedures, and instructions are timely, as changes occur in the estimating system.	
d. Throughout the remainder of this examination, be alert for any areas in which established estimating policies and procedures are either inadequate or incomplete.	
3. Integration with Other Management Systems	

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<p>a. Evaluate the contractor's policies and procedures to determine if they provide for the integration of information from other management systems, as appropriate.</p>	
<p>b. Selectively evaluate recent pricing proposals or other cost estimates to determine if information from other management systems was appropriately integrated into the cost estimates.</p>	

<b>I-1</b>	<b>Training</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
<p>The auditor should obtain an understanding of the contractor’s control activities (policies and procedures) for each relevant estimating system control objective. A detailed understanding of control activities is essential to the assessment of control risk for each objective. Estimating system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the ICM-ESTG. The audit procedures in sections G, H, I, J, and K, organized by control objective, are also included in the internal control matrix.</p>		
<p>The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated, and if reliance can be placed on such evaluations.</p>		
<p>The auditor should recognize those aspects of the contractor’s estimating system that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in working paper E (Information and Communications), as well as those set forth below.</p>		
<p>In performing the following audit procedures to understand the contractor’s control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor’s control activities.</p>		
<p>Assure that assigned personnel have sufficient training, experience, and guidance to perform estimating tasks in accordance with established procedures.</p>		
<p>1. Evaluate the contractor's policies and procedures to determine if they require periodic training of all employees involved in the estimating process, including, when appropriate, the use of statistical aids and advanced estimating techniques.</p>		

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2. Evaluate records of completed training, or other evidence, indicating that appropriate employees have been trained in accordance with the policies and procedures.	
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<b>J-1</b>	<b>Cost Estimate Development</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
The auditor should obtain an understanding of the contractor’s control activities (policies and procedures) for each relevant estimating system control objective. A detailed understanding of control activities is essential to the assessment of control risk for each objective. Estimating system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the ICM-ESTG. The audit procedures in sections G, H, I, J, and K, organized by control objective, are also included in the internal control matrix.		
The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated, and if reliance can be placed on such evaluations.		
The auditor should recognize those aspects of the contractor’s estimating system that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in working paper E (Information and Communications), as well as those set forth below.		
In performing the following audit procedures to understand the contractor’s control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor’s control activities.		
Ensure that cost estimates are developed using acceptable estimating methods and rationale, and that supporting data is current, accurate, and complete.		
1. Evaluate the adequacy and appropriateness of the methods employed in preparing cost estimates for each proposal type. Consider the following:		
a. The nature of the products or services procured.		
b. The degree of firmness of specifications.		
c. The contractor's experience with the same or similar products or		

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services.	
d. The extent detailed cost data can be derived from the accounting system, adjunct statistical records, etc.	
e. The relative dollar amount of the estimates.	
f. Cost and time restrictions on the preparation of the estimates.	
2. Evaluate the extent to which the contractor has identified the estimating practices for sensitive cost areas.	
3. Determine if the contractor has procedures in place to ensure that practices used to estimate costs are consistent with accounting practices used in accumulating costs (CAS 401/FAR 31.201 and 31.203(d)), and to ensure that estimated costs are consistently classified between direct and indirect (CAS 402/FAR 31-202 and 31.203(a)).	
4. Evaluate the extent to which estimating methods make use of historical data relating to entire products and individual tasks; and indirect cost ratios and percentage factors applicable to a common base.	
5. Determine if cost estimates based upon prior cost experience consider:	
a. Differences in complexity, quantity, rate of production, state of development, etc., between items previously produced and those for which estimates are being developed.	
b. Applicability of preproduction engineering, special tooling, plant rearrangement, and other nonrecurring costs.	
c. Anticipated changes in production methods, material usage, prices, wage rates, labor efficiency, production volume, plant capacity and make-or-buy structure.	
6. Evaluate the applicability of historical standard cost variance factors. (Where standards have been revised to represent expected actual cost, historical cost variances are not applicable).	
7. Evaluate the appropriateness of escalation factors proposed, and the methods used to apply them to the cost elements.	
8. Evaluate the availability and use of incurred cost records in developing estimates if the contractor is given the authorization to proceed before a contract price is negotiated.	
9. Evaluate the propriety of using company-wide forward pricing factors for preparing cost estimates. Are such factors current, based upon reliable cost data and procedures, and correctly applied?	
10. Evaluate the reasonableness of formula pricing methods for spare parts to ensure that individual elements of cost are not duplicated in both	

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base costs and loading factors.	
11. If used by the contractor, evaluate the adequacy of catalog pricing and prepriced listing methods for developing reasonable prices for spare parts proposals.	
12. Evaluate the adequacy of the contractor's methods for developing cost estimates for contract changes.	
a. Do the estimates properly reflect the nature and scope of the change, and the status of the work in process at the time the change is issued?	
b. Are the contractor's procedures for pricing deleted work correct? (Work deleted, but not yet performed, should be priced at estimated current cost).	
13. Determine if proposals are submitted on the appropriate forms, and if related supporting data contains enough detail to permit an adequate evaluation of cost estimates. Is the basis for each cost element disclosed?	
14. When a certificate of current cost or pricing data is required, does the contractor adequately identify the cost or pricing data submitted?	
15. Evaluate the contractor's policies and procedures to determine if they establish responsibility for the review and analysis of subcontracts.	
16. Selectively evaluate recent pricing proposals or other cost estimates to determine if cost/price analysis of subcontracts was performed, as required by the policies and procedures.	
17. Determine if controls are in place to ensure:	
a. Timely submission of data at all phases of the proposal preparation process.	
b. Uniformity of approach, detection of errors, and prevention of cost duplication.	
18. Determine if the following characteristics of an adequate system exist:	
a. Adequate supervision in each area, and at each level of the estimating process.	
b. Managerial reviews at interim points, and upon completion of the estimating process.	
c. Management reviews covering soundness of judgmental estimates, adherence to established procedures, and compliance with pertinent regulations.	
d. Estimators who summarize and document the conditions, assumptions, contingencies, qualifications, risks, etc., taken into	

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consideration in developing estimates.	
19. Determine whether proposed direct labor rates reflect the total hours employees are expected to work during the year as covered in CAM 9-505b, “Evaluation of Estimated Direct Labor Rates.”	

<b>K-1</b>	<b>Contract Certification</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
The auditor should obtain an understanding of the contractor’s control activities (policies and procedures) for each relevant estimating system control objective. A detailed understanding of control activities is essential to the assessment of control risk for each objective. Estimating system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the ICM-ESTG. The audit procedures in sections G, H, I, J, and K, organized by control objective, are also included in the internal control matrix.		
The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated, and if reliance can be placed on such evaluations.		
The auditor should recognize those aspects of the contractor’s estimating system that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in working paper E (Information and Communications), as well as those set forth below.		
In performing the following audit procedures to understand the contractor’s control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor’s control activities.		
To ensure that all cost or pricing data is current, accurate, and complete as of the date of agreement on price.		
1. Evaluate the contractor's policies and procedures to determine if they adequately provide for updating of cost or pricing data up to the point of agreement on price.		
2. Selectively evaluate recent post-award audits to determine if they indicate that the contractor is not updating cost or pricing data, as provided for in the policies and procedures.		

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A-1	Concluding Steps	WP Reference
<b>Version 5.0, dated April 2004</b>		
<b>1. Assessment Of Control Risk</b>		
	a. Considering all five components of internal control, assess control risk for each of the relevant control objectives. For each of the objectives, summarize the characteristics that support the assessed level of control risk, and specifically identify any internal control weaknesses or system deficiencies.	
	b. Determine if the system is adequate to reasonably assure proper pricing, administration, and settlement of Government contracts in accordance with applicable laws and regulations.	
	c. Based on the assessments above, determine the impact on the scope of other audits.	
	d. Update the Internal Control Audit Planning Summary (see CAM 3-305)	
	e. Coordinate the results of audit with the supervisor. The supervisor and the FAO manager should review and initial the ICAPS before the exit conference is performed. If it is determined that additional audit steps are needed, any additional planned audit effort should be accomplished as part of this audit, or as part of the audit of individual proposals. Any delays in completion of this audit effort should be documented and approved by management.	
<b>2. Summary Steps</b>		
	a. Prepare a draft audit report in accordance with CAM 10-400.	
	b. Conduct an exit conference with the contractor in accordance with CAM 4-304.	
	c. Finalize the audit report incorporating the contractor's response and audit rejoinder.	
	d. If the contractor has EVMS covered contracts, provide comments in the audit report on whether any findings are likely to impact the contractor's EVMS (10-1204.5b). Discuss findings and recommendations relating to the EVMS with the Contract Administration Office EVMS Monitor prior to issuance of the	

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report. Immediately evaluate the impact of these findings on specific EVMS covered contracts and provide the details in flash EVMS surveillance reports (11-209.2.e).	
e. Update the permanent file in accordance with CAM 4-405.1.b (MAAR #3).	
<b>3. Closing Actions</b>	
Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (i.e., by initials and date on the CD or working paper folder, etc.) and should include:	
a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.	
b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.	
c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.	
d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.	
e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention	

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<p>should distinguish them from transmittal emails.</p>	
<p>f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.</p>	
<p>g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.</p>	
<p>h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.</p>	
<p>i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.</p>	
<p>j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.</p>	
<p>k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.</p>	
<p>l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).</p>	
<p>m. <b><u>Do Not File Sensitive Audits in iRIMS</u></b>: Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not</p>	

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be filed in iRIMS at this time. See CAM 4-407f for filing instructions.	
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