

Master Document – Audit Program

Activity Code 28000		Cost Realism
Version 4.0, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
<p>To provide procedures for cost realism analyses. These evaluation steps are intended to provide a logical sequence for the evaluation effort and to reflect a mutual understanding between the auditor and the supervisor as to the agreed-upon procedures specified in the request. The evaluation should be conducted in accordance with the auditing standards to the extent applicable under the circumstances. The steps in the program are intended as general guidance and should be modified as necessary to fit the current evaluation. Portions of the evaluation which are covered in other assignments (e.g., forward pricing rate agreement, incurred cost, internal control audits) should be referenced at the appropriate place in these evaluation steps.</p>		
<p>These evaluation steps were prepared to provide specific procedures to evaluate whether the proposed costs are realistic for the work to be performed. The auditor needs to consider and specifically focus his or her evaluation on the possibility that the contractor's proposed costs may be significantly understated versus overstated and that the requester is interested in these understatements. In responding to each item in the request, the goal is to evaluate the proposed costs for reasonableness and possible understatement.</p>		
<p>The evaluation steps selected for completion, or added as necessary, represent a determination of requirements based on auditor judgment, the supervisor's risk assessment (DCAA Form 7640-36), and a clear understanding of contracting officer requirements. The risk is considered to be low on these evaluations and therefore, the auditor should make every attempt to complete this assignment as a desk review, following the guidance provided for the application of agreed-upon procedures. Since the requester is responsible for evaluating the technical aspects of the proposal and the evaluation is limited to agreed-upon procedures, generally, evaluations should not be qualified for technical assistance.</p>		
References		
<ol style="list-style-type: none"> 1. CAM 9-311.4, Cost Realism Analyses 2. CAM 9-108, Review of a Part of a Proposal 3. CAM 9-207, Application of Agreed-upon Procedures 4. CAM 9-210.4, Disclaimer of Opinion 5. FAR 15.404-1(d), Cost Realism Analysis 6. DFARS 215.404-1(d), Cost Realism Analysis 		

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7. CAM 10-1000, Reports on Application of Agreed-Upon Procedures
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B-1	Preliminary Steps	WP Reference
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	1. Evaluate the request for special requirements and scope limitations. Coordinate with the contracting officer to gain a complete understanding of specific areas of risk, special procedures, and the appropriate DCAA services required to meet the needs of the request. Confirm your understanding of the agreed-upon procedures in the working papers and in writing with the customer, as necessary.	
	2. For contracts that require registration in the Central Contractor Registration (CCR) database (i.e., contracts that contain the clauses at FAR 52.232-33, DFARS 252.204-7004, or NASA FAR Supplement 1804.7402), verify that the contractor’s CCR registration status is active/registered. If the contractor is required to register in the CCR, but does not have an active registration, note this fact in the audit report (CAM 9-102.2c).	
	3. Evaluate permanent files (including assessments of the internal control system and control risk summarized on the ICAPS sheets and audit lead sheets) and prior audits to determine if required data are already available. Determine if estimating system deficiencies are outstanding that would affect the scope of the agreed-upon procedures. If so, discuss your recommendations with your supervisor.	
	4. Based on information available in the files determine additional effort that will be required to fulfill the request.	

D-1	Indirect Costs (Overhead, G&A, Fringe, and COM)	WP Reference
Version 4.0, dated April 2004		
	1. Perform the following agreed-upon procedures, as appropriate:	
	a. If agreed-to or FPRA rates exist, verify correct application of proposed rates.	
	b. If agreed-to or FPRA rates do not exist, consider use of other sources on hand to verify correct application of the rates (e.g., prior indirect rate, proposal, budget, or billing rate evaluation).	
	c. Determine that the rates proposed consider volume changes resulting from this procurement.	

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d. Additional agreed-upon procedures, as applicable - describe.	
2. Summarize results of applying agreed upon procedures.	

E-1	Subcontracts	WP Reference
Version 4.0, dated April 2004		
1.	Perform the following agreed-upon procedures, as appropriate, for significant flexibly priced subcontracts:	
a.	Determine the adequacy of contractor justification for competitive subcontracts.	
b.	For sole source subcontracts, evaluate contractor cost or price analysis of subcontract proposals.	
c.	If contractor cost or price analysis of sole source subcontracts is inadequate or not available and the subcontract cannot be evaluated by other techniques (other current or historical data), contact the cognizant audit office for telephone rate verification.	
2.	Summarize results of applying agreed-upon procedures.	

L-1	Direct Labor Rates	WP Reference
Version 4.0, dated April 2004		
1.	Perform the following agreed-upon procedures, as appropriate:	
a.	If agreed-to or FPRA rates exist, verify correct application of proposed rates.	
b.	If verification of labor rates for specific individuals is requested, evaluate prior audit files to determine if this information is available. If unavailable, determine if reasonableness of the rate proposed can be determined by job class and coordinate with the requester to determine if this will suffice.	
c.	Evaluate proposed escalation, if applicable.	
d.	Additional evaluation steps, as applicable: describe.	
2.	Summarize results of applying agreed-upon procedures.	

O-1	Other Direct Costs (ODCs)	WP Reference
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1. Perform the following agreed-upon procedures, if appropriate:	
a. Evaluate ODC requirements based on pertinent historical data available in our files.	
b. If historical information is not available consider use of other sources on hand to evaluate the reasonableness and/or potential understatement (e.g., telephone rate verification of airfare and other travel costs).	
2. Summarize results of applying agreed-upon procedures.	

P-1	Evaluation of Other Areas	WP Reference
Version 4.0, dated April 2004		
Apply additional agreed-upon procedures, as applicable, based on the request and coordination with the requester.		

A-1	Concluding Steps	WP Reference
Version 4.0, dated April 2004		
1. Summarize results of applying the agreed-upon procedures.		
2. Discuss the results with your supervisor.		
3. Unless otherwise instructed in the request, discuss any factual differences (e.g., use of rates that differ from the current rate forecast or FPRA) with the contractor and evaluate the contractor's response.		
4. Draft report following the guidance in CAM 10-1000 for agreed-upon procedures. The report should include a disclaimer of an opinion. If significant inadequacies are found, this information should be included in the results of application of agreed-upon procedures section of the report with the findings to which it applies. A deficiency which the auditor believes should be called to the user's attention, even though it is unrelated to a specific procedure, may be reported in an appendix.		
5. 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 (e.g., by initials and date on the CD or working paper folder, etc.) and should		

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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 should distinguish them from transmittal emails.	
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.	
g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the	

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<p>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. <u>Do Not File Sensitive Audits in iRIMS:</u> Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.</p>	