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CASE NOS. \_\_\_\_\_  
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\_\_\_\_\_PROGRAM: FOR AUDIT OF COSTS  
COST TYPE CONTRACTS

CONTRACT NUMBER \_\_\_\_\_

TASK ORDER(S) \_\_\_\_\_

The steps enumerated in this standard audit program are not considered mandatory. The auditor is expected to utilize judgment in expanding or contracting the scope of audit. In the event significant deviations are made to this program the chance should be noted and explained in an attached addendum.

AT HEADQUARTERS

1. Review contract brief and branch controls on open task orders, noting comments and special approvals since last audit.
2. Review prior audit working papers.
3. Review completed Survey of Internal Controls and Accounting Practices or Cost Accounting Standards Disclosure Statement, and Contractor's submitted Government Property Procedure.
4. Prepare and/or post to Summary of Contractor's Claims Schedule, the cumulative amounts of each expense element, the total cost, fee and total as shown on the contractor's latest submitted invoice. (In the event the contractor's invoices do not show cumulative amounts, the invoices should be listed individually and the contractor informed at time of visit, to comply with standard billing procedure).
5. Reconcile total claim to CCS/CALD/CP control card. Review audit adjustments and reconcile to control card. Post total payments shown on control card to Summary of Contractor's Claims Schedule.

IN FIELD

1. Total Claims
  - a. Reconcile the contractor's claim by expense element with the contractor's cost ledger. List separately for each fiscal year in order to expedite final reports when actual indirect expense allocation rates have been negotiated.
  - b. Substantiate over/under payment with contractor's accounts receivable.
2. Direct Labor Audit
  - a. Examine labor entries in project ledger and select transactions for audit.
  - b. If transaction selected is for regular payroll distribution, review and extract from labor distribution register the identity of employees, hours and dollars charged to the project during the period selected for audit. Using the extract from labor distribution register, examine and reconcile time cards. Verify pay rates claimed to employees' earnings records or personnel department records. Test extensions of hours and rates for clerical accuracy. Test paid payroll checks.
  - c. If transaction selected is not a normal payroll distribution but represents a transfer or adjustment, trace the transaction to its inception to ascertain propriety and follow as many of the steps enumerated in 2b above to ensure equitability.

## AUDIT PROGRAM FOR AUDIT OF COSTS - COST TYPE CONTRACTS

**3. Direct Materials Audit**

- a. Examine direct materials entries in project ledger and select transactions for audit.
- b. If transaction selected is for charges from voucher register, purchase journal, etc., review and extract from applicable register the reference number (voucher or purchase order number), the identity of the vendor and amount charged to the project during the period selected for audit. Using the extract from the applicable register, examine and test vouchers in detail, placing particular emphasis on the contractor's system of internal controls with respect to the issuing, approving, pricing, verifying, extending, discounting and/or payment as it applies to requisitions, purchase orders, receiving reports, inspection reports, vendor's invoices and payment checks. Evaluate purchases to determine whether the items were required for contract performance and bought in reasonable quantities at prudent prices. Be alert to the possibility that certain vendors may be related or subsidiary companies and therefore eligible for special pricing allowances.
- c. If transaction selected is not a normal purchase from the voucher register or purchase journal but represents a transfer or adjustment, trace the transaction to its inception to ascertain propriety and follow as many of the steps enumerated in 3b above as deemed necessary to ensure equitability.

**4. Audit of Material Withdrawn from Stock**

- a. Examine stock withdrawals entries in project ledger for transfer of costs from stores and select transactions for audit.
- b. Review and extract from the stores withdrawals register, the requisition number and amount charged to the project during the period selected for audit. Using the extract from the stores withdrawals register, examine and reconcile requisitions, listing the quantities, description and unit prices of the items withdrawn. Test requisition unit prices to stock record card. Test stock record card prices to vendors' invoices.

**5. Audit of Other Direct Costs**

- a. Examine other direct cost entries in project ledger and select transactions for audit.
- b. Trace selected transactions to basic documentation to determine allowability in compliance with contract terms, special authorizations, etc. Test for clerical accuracy and payments.

**6. Indirect Expense Allocation Rates Verification**

- a. Prepare a schedule summarizing the contractor's claims by elements of cost and by overhead period in which incurred. If departments having different overhead rates are involved, a breakdown by department is required.
- b. On the same schedule, show the approved claim by elements of cost and compute the indirect expenses at the currently approved rates. (If current book rates vary sufficiently to indicate substantial overclaim and new rates are being recommended concurrently with this audit, the recommended rates are to be substituted for those now obsolete).

**7. Miscellaneous**

- a. Determine that the contractor maintains records of Government property in its possession in accordance with the approved procedure or Appendix B, ASPE. Test property record control cards for specific items developed by audit of direct material and/or stores withdrawals. Verify that Government furnished equipment is included in property record control system. Ascertain that Agency property has been marked in accordance with contracting officer's approved method.

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**AUDIT PROGRAM FOR AUDIT OF COSTS - COST TYPE CONTRACTS**

- b. Amend Survey of Internal Controls and Accounting Practices for any changes made in the Contractor's system since the last audit.
8. Exit Conference - Meet with contractor's representative for the purpose of advising of the results of audit and contractor's reaction to specific items questioned. Discuss status of indirect expense allocation rates, final vouchers, and cumulative claim and reconciliation statements. Obtain latest financial statements and/or annual report from contractor.

**AT HEADQUARTERS**

1. Prepare report(s) on audit including a statement on maintenance of property records in accordance with approved procedure or Appendix B, ASFR.
2. Index working papers and cross reference.
3. Post audit reports to Branch Control for each task order.

CASE NOS. \_\_\_\_\_  
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\_\_\_\_\_PROGRAM FOR AUDIT OF COSTS  
TIME AND MATERIAL CONTRACTS

CONTRACT NUMBER \_\_\_\_\_

TASK ORDER(S) \_\_\_\_\_

The steps enumerated in this standard audit program are not considered mandatory. The auditor is expected to utilize judgment in expanding or contracting the scope of audit. In the event significant deviations are made to this program the change should be noted and explained in an attached addendum.

AT HEADQUARTERS

1. Review contract brief and branch controls on open task orders, noting comments and special approvals since last audit.
2. Review prior audit working papers.
3. Review completed Survey on Internal Controls and Accounting Practices or Cost Accounting Standards Disclosure Statement, and Contractor's submitted Government Property Procedure.
4. Prepare and/or post to Summary of Contractor's Claims Schedule, the cumulative amounts and hours of each labor category, the amount of each expense element, and total as shown on the contractor's latest submitted invoice. (In the event the contractor's invoices do not show cumulative amounts, the invoices should be listed individually and the contractor informed at time of visit, to comply with standard billing procedure.)
5. Reconcile total claim to CCS/CALD/OF control card. Review audit adjustments and reconcile to control card. Post total payments shown on control card to Summary of Contractor's Claims Schedule.
6. Verify contractor's computations by multiplying the total hours billed in each labor category times the authorized rates.

IN FIELD

1. Total Claims
  - a. Reconcile the contractor's hours claimed by labor category and monetary value of materials and other direct costs with the contractor's cost ledger.
  - b. Substantiate over/under payment with contractor's accounts receivable.
2. Direct Labor Audit
  - a. Examine labor entries in project ledger and select transactions for audit.
  - b. If transaction selected is for regular payroll distribution, review and extract from labor distribution register the identity of employees and hours charged to the project during the period selected for audit. Using the extract from labor distribution register, examine and reconcile time cards.
  - c. If transaction selected is not a normal payroll distribution but represents a transfer or adjustment, trace the transaction to its inception to ascertain propriety and follow as many of the steps enumerated in 2b above to ensure equitability.
  - d. Reconstruct several TEM rates on basis of current information, i.e. actual labor rates, current indirect expense allocation rates, etc. (While in all probability adjustments cannot be made on the current contract, this information can have retrospective application to future contracts.)

## PROGRAM FOR AUDIT OF COSTS - TIME AND MATERIAL CONTRACTS

**3. Direct Materials Audit**

- a. Examine direct materials entries in project ledger and select transactions for audit.
- b. If transaction selected is for charges from voucher register, purchase journal, etc., review and extract from applicable register the reference number (voucher of purchase order number), the identity of the vendor and amount charged to the project during the period selected for audit. Using the extract from the applicable register, examine and test vouchers in detail, placing particular emphasis on the contractor's system of internal controls with respect to the issuing, approving, pricing, verifying, extending, discounting and/or payment as it applies to requisitions, purchase orders, receiving reports, inspection reports, vendor's invoices and payment checks. Evaluate purchases to determine whether the items were required for contract performance and bought in reasonable quantities at prudent prices. Be alert to the possibility that certain vendors may be related or subsidiary companies and therefore eligible for special pricing allowances.
- c. If transaction selected is not a normal purchase from the voucher register or purchase journal but represents a transfer or adjustment, trace the transaction to its inception to ascertain proprietary and follow as many of the steps enumerated in 3b above as deemed necessary to ensure equitability.

**4. Audit of Material Withdrawn from Stock**

- a. Examine stock withdrawals entries in project ledger for transfer of costs from stores and select transactions for audit.
- b. Review and extract from the stores withdrawals register, the requisition number and amount charged to the project during the period selected for audit. Using the extract from the stores withdrawals register, examine and reconcile requisitions, listing the quantities, description and unit prices of the items withdrawn. Test requisition unit prices to stock record card. Test stock record card prices to vendors' invoices.

**5. Audit of Other Direct Costs**

- a. Examine other direct cost entries in project ledger and select transactions for audit.
- b. Trace selected transactions to basic documentation to determine allowability in compliance with contract terms, special authorizations, etc. Test for clerical accuracy and payments.

**6. Indirect Expense Allocation Rates Verification - If the contract provides a material handling rate verify contractor's billing.**

**7. Miscellaneous**

- a. Determine that the contractor maintains records of Government property in its possession in accordance with the approved procedure or Appendix B, ASPR. Test property record control cards for specific items developed by audit of direct material and/or stores withdrawals. Verify that Government furnished equipment is included in property record control system. Ascertain that Agency property has been marked in accordance with contracting Officer's approved method.

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Case No. \_\_\_\_\_

OVERHEAD AUDIT PROGRAMHeadquarters:

1. Review completed survey of controls and accounting procedures.
2. Review the contract, noting terms relevant to overhead determinations such as:
  - (a) Guide to be used in determining allowable cost, whether ASPR Section XV or other.
  - (b) Overhead maximum limitations.
  - (c) Special approvals of costs or facilities that relate to overhead application.
  - (d) Method for determining final overhead whether by negotiation, audit determination or other.
3. Obtain from the contractor, its signed overhead proposals covering the period( ) to be audited.
4. Review the statements in (1) above and:
  - (a) Compare current costs with costs of previous periods, noting changes in procedures, disparity of costs between fiscal periods or unusually large expenditures in any particular expense category.
  - (b) Determine whether costs specifically disallowed under ASPR Section XV or other criteria for determining allowable costs have been excluded from contractor's claims.
  - (c) Note any deviations, exceptions or questions to be discussed with the contractor's representative prior to starting field audit.

Field:

1. Discussion with contractor's accounting representative:
  - (a) Ascertain that statements presented are valid and represent the contractor's total overhead claims.
  - (b) Discuss any questions that arose in prefield review.
  - (c) Review contractor's current accounting procedures, compare present procedures with procedures at most current audit and determine if changes result in inequities. Discuss any apparent inequities with contractor.
2. Verification of overhead expense:
  - (a) Verify the expenses proposed to the contractor's general ledger and financial statements. Reconcile differences.
  - (b) Select a representative period for detail verification.
  - (c) Examine all transactions in each account, for period selected for review by:
    - (1) Trace entries in general ledger for the period selected to the source of the entry, i.e., cash disbursements, accounts payable register or other.
    - (2) Itemize each transaction, and tie-in to general ledger.
    - (3) Expand scope to cover broader period if test check reveals deficiencies.
    - (4) Follow procedures for auditing costs as described in Chapter IV Section 3 of the DOD contract audit manual.
  - (d) Eliminate all costs found to be unallowable in accordance with ASPR Section XV or other cost criteria not current period cost, in excess of contract limitations and in excess of amount considered reasonable.
  - (e) Compute overhead rates taking into consideration costs questioned.
3. Discuss with contractor's responsible representatives all costs questioned and get his concurrence or reason for nonconcurrence.
4. Obtain latest billing and bidding rate information along with supporting schedules.

Headquarters:

1. Prepare advisory report for the contracting officer. Itemize and explain all costs questioned, compute overhead rates, and state contractor's concurrence or nonconcurrence with audit findings.
2. Index working papers and cross reference.



## EVALUATION OF COST PROPOSALS

AUDIT PROGRAM

1. Review the normal methods and procedures used by the contractor in the preparation of proposals and determine if such methods were followed in the preparation of the proposal under review. If contractor is required to file a disclosure statement as stipulated by Cost Accounting Standards Board, review the proposal to ensure that it was prepared in accordance with the disclosed practices.
2. LABOR:
  - a. Hours: Review the contractor's basic work papers used in compiling its labor hour estimate. Relate these work papers to blueprints, schematics or the technical proposal if possible. If these work papers do not exist or are not available, get a definite statement from the contractor as to how the labor hours were determined and the amount of effort expended in its determination. This being the most critical phase of most cost analyses, exhaust all possibilities, within the available time, to enable CSAD to help the negotiating team in determining the reasonableness of the labor hour estimate.
  - b. Rates: If the labor rates used are those of specific individuals, compare the rates with similarly classed employees. Any contingencies included for proposed wage/salary increases should be verified to union agreements, defintized company policy or annual or semi-annual salary reviews, etc.
3. Review the method used in pricing materials. Verify historical costs if such costs were used in the proposals. Determine if the contractor has obtained quotations from more than one source for purchases and subcontracts. Ascertain the extent of subcontract cost analysis performed by the contractor.
4. Review methods used in pricing other direct costs included in the proposal, such as travel consultants, computer time, etc., and verify historical costs used as a basis for such pricing. Determine if proposed travel rates are in accordance with contractor's established policy.
5. Verify overhead allocation rates used and review projected rates for reasonableness. Give attention to the effect of new business on the contractor's total projected expense, which will have a direct bearing on the projected overhead rate. If not stated separately, ascertain extent of independent research and development which may be included in the overhead rates.
6. Determine if the fee requested is in line with the fee percentage of estimated costs customarily accepted by other Government agencies under contracts with same contractors.
7. Consult with the cognizant DCAA auditor, where time permits, regarding audit and cost analysis experience with the contractor and, whether the cognizant audit office has evaluated the contractor's proposal procedures.
8. Be able, on the basis of the analysis, to make some specific recommendations regarding the acceptance of certain elements of the proposal and to comment on the reasonableness of the proposal as a whole.
9. Meet with the negotiator and the technical representative, as required, and render accounting counsel.
10. Submit a report on our findings and recommendations.
11. If requested, participate in the actual negotiations in an advisory capacity.