



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
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IN REPLY REFER TO

PSP 730.5.2

June 19, 2008  
08-PSP-019(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**

**SUBJECT: Audit Alert on Performance of Postaward (Defective Pricing) Audits**

This audit alert emphasizes and clarifies existing guidance relating to (1) efficiently establishing the audit baseline calculation for risk assessment, (2) performing underrun/overrun testing, (3) performing probe transaction testing, (4) following up on leads identified in probe testing, and (5) coordinating with contracting officers. These areas are being emphasized based on the effort performed by the ad hoc consisting of Headquarters, Regional and FAO representatives formed to accomplish SPO G4-06-01 that was established to assess the effectiveness of defective pricing audit planning and execution.

**Audit Baseline Calculation**

A precise baseline calculation is not necessarily required at the risk assessment/preliminary audit phase. For risk assessment purposes, the initial baseline can be determined using data readily available (e.g., the latest proposal provided by the contractor) based on the auditor's judgment. Auditors should prepare a more detailed baseline in accordance with CAM 14-116 when detailed audit procedures identify defective data.

**Underrun/Overrun Testing**

Underrun/overrun testing identifies potential defective pricing leads by comparing actual costs incurred or current estimates at completion (EAC) to the audit baseline costs. When the contract is incomplete and the contractor does not provide an EAC, auditors should try using other records to perform the tests. Other sources of EAC and contract performance data include, but are not limited to, progress payments requests, EVMS surveillance reports, or the latest contract budgetary data. The lack of current EACs may indicate a deficiency in a contractor system (e.g., billing system) that should be reported using the flash reporting procedures in CAM 10-413.

**Probe Transaction Testing**

Probe transaction testing is **mandatory** for completion of **all** audits to ensure adequate substantiative testing has been performed to provide a reasonable basis for an opinion. Analytical procedures without transaction testing are not sufficient competent evidence to conclude and

report no defective pricing. In addition, the decision to perform additional audit steps, otherwise known as “go” or “no go” decision, should be based on the results of probe transaction testing. (CAM 14-114b)

### **Following up On Leads Identified in Probe Transaction Testing**

Leads for potential defective pricing should be properly followed-up with additional audit steps before reaching a conclusion as to whether the contractor’s certified cost or pricing data was in compliance with TINA. When the results of the risk assessment or probe transaction testing indicate that the audit should be continued, and the supervisor agrees, the auditor **must** follow up with appropriate audit steps to reflect the agreed-to audit scope and submit audit procedures for supervisory approval. (CAM 14-114c)

The working papers should clearly identify the audit coverage and documentation to support the conclusions as to whether the contractor was compliant with the requirements of TINA. Working papers should contain sufficient information to enable an experienced auditor who had no previous connection with the audit to ascertain from them the evidence that support the auditor’s significant conclusion and judgment.

### **Coordinating with Contracting Officers**

Effective planning for postaward audits requires effective coordination with the PCO and promptly obtaining the PNM. The auditor should confirm with the contracting officer the cost or pricing data the Government relied upon. If the PNM is not readily available, the auditor should request assistance from FLA (CAM 14-115).

If FAO personnel have any questions, they should contact regional personnel. Regional personnel with any questions should contact Pricing and Special Projects Division, at (703) 767-3290.

/Signed/  
Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

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