

## Subcontract Audit Definitions

- Cost Analysis (FAR 15.404-1(c)(1)): The review and evaluation of the separate cost elements and profit/fee in an offeror's or contractor's proposal. It is utilized to determine how well the proposed costs represent what the cost of the contract should be, assuming reasonable economy and efficiency.
  - (1) Cost analysis supports price analysis (FAR 15.404-1(a)(3)): Perform price analysis even when you perform cost analysis. Assuring the reasonableness of individual elements of cost does not always assure overall price reasonableness.
  - (2) Required cost analysis (FAR 15.404-1(a)(3)): Cost analysis must be utilized to evaluate the reasonableness of cost elements when certified cost or pricing data are required.
  - (3) Optional cost analysis (FAR 15.404-1(a)(4)): Cost analysis may be utilized to evaluate information other than cost or pricing data to determine cost reasonableness and cost realism.
- Cost Reasonableness (FAR 31.201-3): A cost is reasonable if, in its nature and amount, it does not exceed the cost which would be incurred by a prudent person in the conduct of competitive business.
- Cost Realism (FAR 15.401): To be realistic, the costs in an offeror's proposal must:
  - (1) Be realistic for the work to be performed under the contract;
  - (2) Reflect a clear understanding of contract requirements; and
  - (3) Be consistent with the various elements of the offeror's technical proposal.
- Price Analysis (FAR 15.404-1(b)(1)): The process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit. Price analysis shall be used when certified cost or pricing data are not required. Price analysis may include the evaluation of data other than certified cost or pricing data obtained from the offeror or contractor when there is no other means for determining a fair and reasonable price.
- Certified cost or pricing data: Means "cost or pricing data" that were required to be submitted in accordance with FAR 15.403-4 and 15.403-5 and have been certified, or are required to be certified, in accordance with 15.406-2. This certification states that, to the best of the person's knowledge and belief, the cost or pricing data are accurate, complete, and current as of a date certain before contract award. The threshold for obtaining certified cost or pricing data is \$750,000 for prime contracts awarded before 7/1/18 and \$2,000,000 for prime contracts awarded on or after 7/1/18.
- Accounting System Adequacy Audit (DFARS 252.242-7006; SF 1408):
  - (1) Confirmation that the accounting system provides reasonable assurance that:
    - Applicable laws and regulations are complied with;
    - The accounting system and cost data are reliable;
    - Risk of misallocations and mischarges are minimized; and
    - Contract allocations and charges are consistent with billing procedures.
  - (2) The confirmation is determined by evaluating a minimum of 18 criteria that are detailed in the DFARS and SF 1408.

- Incurred Cost Submission (ICS) Audit: An evaluation of the ICS required for all federal contractors holding cost-type or T&M contracts that include the “Allowable Cost & Payment Clause” (FAR 52.216-7) and/or the “T&M Payment Clause” (FAR 52.232-7). The audit focus is on the development of the indirect rates and the cost pool and base components.

### **Subcontract Audit Rate Definitions**

- Provisional Billing Rates/Billing Rates (FAR 42.701): Means an indirect cost rate:
  - (1) Established temporarily for interim reimbursement of incurred indirect costs; and
  - (2) Adjusted as necessary pending establishment of final indirect cost rates.
- Forward Pricing Rates Agreement (FAR 2.1): Means a written agreement negotiated between a contractor and the Government to make certain rates available during a specified period for use in pricing contracts or modifications. These rates represent reasonable projections of specific costs that are not easily estimated for, identified with, or generated by a specific contract, contract end item, or task. These projections may include rates for such things as labor, indirect costs, material obsolescence and usage, spare parts provisioning, and material handling.
- Incurred Cost Submission Rates/Indirect Cost Rates (FAR 2.1): Means the percentage or dollar factor that expresses the ratio of indirect expense incurred in a given period to direct labor cost, manufacturing cost, or another appropriate base for the same period (see also “final indirect cost rate”).
- Final Indirect Cost Rates (FAR 2.1): Means the indirect cost rate established and agreed upon by the Government and the contractor as not subject to change. It is usually established after the close of the contractor’s fiscal year to which it applies.
- Rate Verification/Rate Check: Obtain, review, and confirm mathematical accuracy of approved contractor rates. Rate verifications may be performed on rates that have been evaluated and deemed acceptable and reasonable by the Government or potentially a third-party CPA firm.
- GSA Rates/Schedule Pricing (GSA.gov):
  - (1) Rates awarded based on fixed ceiling prices for supplies
  - (2) Services are priced at either hourly rates or at fixed prices for specific tasks
  - (3) Utilized for commercial supplies and services
  - (4) To ensure best value at the lowest overall cost, GSA encourages seeking price reductions from schedules before placing an order