



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.5.1

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

SUBJECT: Audit Guidance and Related Audit Program Changes for OMB Circular A-133 Audits

SUMMARY

This MRD discusses the significant revisions made to the Agency's policy and audit program for OMB Circular A-133 audits. Effective immediately, FAOs performing OMB Circular A-133 compliance audits are no longer required to perform cyclical internal control audits, except for the Control Environment and Overall Accounting Controls (Code 11070) and Billing System (Code 11010) audits. In addition, the major incurred cost audit steps have been incorporated into the OMB Circular A-133 program for testing compliance with Compliance Requirements B (Allowable Costs/Cost Principles). These audit policy changes are reflected in the current audit program available through APPS.

BACKGROUND

DCAA participation in OMB Circular A-133 audits represent an annual, comprehensive audit of an entity's major Federal award program(s) that requires the auditor to obtain an understanding of the auditee's internal controls over Federal programs, and appropriately test the controls to assess control risk for each compliance requirement that has a direct and significant effect on the Federal program. Additionally, the A-133 audit includes evaluating the entity's overall compliance with the Federal laws and regulations specific to each applicable compliance requirement.

Historically, in performing the A-133 audits at major contractors, auditors performed the required internal control audits (CAM 5-103), in addition to the audit of internal controls performed during the A-133 compliance audit. Policy conducted an assessment of the A-133 internal controls and concluded that, with the exception of performing two internal control audits (Control Environment and Overall Accounting Controls and Billing System), reviewing the A-133 internal controls satisfies the Generally Accepted Government Auditing Standards (GAGAS) requirements for documenting the understanding of internal controls for the incurred cost audit when performing an A-133 audit. As such, this eliminates the need to routinely perform eight of the ten internal control audits at those entities where DCAA is performing OMB Circular A-133 audits.

In addition, to satisfy the objectives for testing Compliance Requirement B, auditors would initiate an incurred cost assignment, separate from the A-133 audit, to audit the entity's final cost submission. To be more effective, Policy's assessment determined that the appropriate incurred cost audit steps from the major incurred cost audit program could be incorporated into the A-133 audit program, thus eliminating the need for two separate assignments.

GUIDANCE

FAOs performing OMB Circular A-133 audits are no longer required to perform cyclical internal control audits (CAM 5-103), except for the Control Environment and Overall Accounting Controls (Code 11070) and the Billing System and Related Internal Controls (Code 11010). FAOs have the flexibility to perform specific internal control audits based on changes in risk and unique circumstances, such as:

- Implementation of a new system or major system change (e.g., auditee implementation of a new labor/payroll system);
- Existence of significant forward pricing effort (e.g., Estimating System Code 24010);
- Receipt of ACO requests for participation in a joint Contractor Purchasing System Review (CPSR) or other ACO requests based on concerns/risks identified.

Auditors should use the revised internal control steps in the standard A-133 audit program for obtaining and documenting their understanding of the five internal control components for each compliance requirement covered by the DCAA audit. To assist auditors in reviewing the internal controls for Compliance Requirement A (Activities Allowed and Unallowed) and B (Allowable Costs/Cost Principles), a working paper example will be posted to the Headquarters Policy - PQA Best Practices webpage.

Although auditors will no longer have to perform the other internal control audits on a cyclical basis, the auditor should always consider the audit effort being performed by the Independent Public Accountant (IPA) and adjust their audit scope accordingly. For example, during the IPA's audit of the financial statements, a review of the contractor's Information Technology (IT) systems is generally performed. Auditors should review the results of the IPA's audit of the IT controls and consider these results in assessing the A-133 compliance audit risk/scope. Guidance for relying on the work of others is contained in CAM 4-1000.

When auditing Compliance Requirement B, auditors should not establish a separate assignment to audit the allowability of the claimed costs. Appropriate steps from the major contractor incurred cost audit program are now included in the A-133 audit program. When performing an incurred cost audit, auditors are reminded that dual purpose transaction testing should be considered throughout the audit. Dual purpose transaction testing requires the auditor to test that the internal controls are designed and operating effectively, as well as testing the validity and propriety of the accounting transactions and balances using the same transaction sample.

We have also revised the W/P B (Risk Assessment) to address the unique aspects of the A-133 audit and risk environment.

Field questions regarding this memorandum should be directed to the regional office. Regional office questions should be addressed to Policy Programs Division at (703) 767-2278.

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

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