



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

IN REPLY REFER TO

PPS 730.4.A.4

December 31, 2012  
12-PPS-033(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA  
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Alert Emphasizing Supervisory Involvement in the Design of Sampling and Judgmental Selection Plans

This audit alert emphasizes the importance of supervisory involvement in the design of sampling and judgmental selection plans. Observations from our Integrity and Quality Assurance Directorate have disclosed that the most successful applications occur when the supervisory auditor is directly involved with the design of the plan prior to testing. Therefore, we are recommending, as an Agency best practice, that auditors discuss and review the plan with the supervisory auditor, and obtain his or her approval prior to initiating the sample selection or testing.

Sampling is an important tool that saves time and increases audit efficiency by allowing the auditor to gain sufficient appropriate audit evidence to draw conclusions about a population without examining the entire population. Statistical sampling uses a random selection method that is defensible as being truly objective, and that allows for the projection of questioned costs to the universe. Auditors can use statistical sampling applications to test for errors or to obtain assurance that an error rate is not excessive (attribute testing), or to estimate an amount such as the value of questioned costs in a bill of material (variable sampling). The scope and degree of testing is a matter of professional judgment influenced by factors such as prior experience, materiality and sensitivity.

Designing a statistical sampling plan that meets the audit objectives requires careful planning and preparation. In doing so, the auditor needs to obtain and document their understanding of the audit and sampling objectives, audit universe (including size, value, and homogeneity of transactions), sampling unit, sampling universe, sampling frame, and the appropriate technique. Additional considerations include factors such as the sampling approach (e.g., dollar or physical unit for variable sampling) and reliability parameters. To determine the extent of the examination, the auditor also must have an understanding of the control or account when selecting the items to be tested. For additional information on sampling design and applications, and working paper documentation, see CAM Sections 4-403 g. (4), 4-602.2 and Appendix B.

December 31, 2012  
12-PPS-033(R)

PPS 730.4.A.4

SUBJECT: Audit Alert Emphasizing Supervisory Involvement in the Design of Sampling and Judgmental Selection Plans

Given the complexities involved and the number of decisions that must occur, supervisory guidance plays an essential role in assisting the auditor in designing the sampling plan. Without a successful plan, the sampling application may not achieve the desired results or produce a statistically defensible audit position. Auditors also should consider whether other individuals should be involved in assisting the auditor with designing the sampling plan, (e.g., the FAO Assistant for Quality, CAATS/QM Monitors, and Technical Specialists).

In some situations, the sampling methods discussed above are not practical, and auditors may use judgmental selection as an alternative. Judgmental selection may be appropriate when the universe is very small, or when there are a small number of transactions representing a significant portion of the universe. Judgmental selection is not a sampling application, and therefore, audit findings only apply to the specific items tested (questioned costs cannot be projected to the universe). Judgmental selection requires the auditor to document a description of the universe and the items selected for testing (for additional details see CAM Section 4-602.1). The working papers also must include an explanation as to why the judgmental selection results in adequate audit coverage (i.e., sufficient appropriate audit evidence to draw conclusions). Supervisory involvement in the decision to use judgmental selection and in reviewing and approving the judgmental selection plan will enhance the audit planning process.

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Policy Publications and Systems Division, at (703) 767-3274, or by e-mail [DCAA-PPS@dcaa.mil](mailto:DCAA-PPS@dcaa.mil).

/s/ Anita C. Homburg  
/for/ Donald J. McKenzie  
Assistant Director  
Policy and Plans

DISTRIBUTION: E