

Master Document - Audit Program

Activity Code 10100	Incurred Cost – Concurrent Auditing
Version 2.0, dated April 2004	
B-1	Planning Considerations
Purpose and Scope	
<p>This program provides a logical sequence to the effort required to perform a concurrent incurred cost audit. It should reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives. The steps in the program are intended as general guidance and should be expanded or eliminated as necessary to fit the audit. The audit program should serve as a control document covering the entire incurred cost audit of a contractor fiscal year. Those portions of the audit which are covered in other assignments should be referenced at the appropriate place in this program. Audit programs in other assignments should be cross-referenced back to this assignment.</p>	
<p>1. The purpose of incurred cost auditing is to determine whether costs charged to auditable Government contracts are allowable, allocable, and reasonable in accordance with the contract and applicable Government acquisition regulations.</p>	
<p>2. Concurrent auditing procedures are intended to expedite the process of establishing final indirect cost rates, thus assisting contracting officers in closing out contracts in a more timely fashion. The timing for performing individual steps (i.e., before or after the receipt of the certified proposal) is a matter of local judgment based on local circumstances, the adequacy of internal controls, and the efficiencies to be gained.</p>	
<p>3. The use of this audit program assumes the contractor has been selected as an eligible participant and has agreed to support the application of concurrent auditing procedures. The auditor and the contractor should agree on the submission of data, the general evaluation process, and the timeliness of contractor support during the audit.</p>	
<p>4. This audit program is internally cross-referenced and referenced to the Contract Audit Manual (CAM), the Cost Accounting Standards (CAS), the Federal Acquisition Regulation and the DoD Supplement (FAR/DFARS), the Internal Control Audit Planning Summary (ICAPS), and the Mandatory Annual Audit Requirements (MAARs). See CAM 6-1S1 for a listing of the MAARs and their objectives. The auditor should combine steps for planned internal control audits, CAS audits, and the incurred cost audit steps to be performed during the contractor's fiscal year, when feasible.</p>	
<p>5. The MAARs concept makes a presumption of materiality requiring an assessment at all major contractors. The auditor is expected to exercise professional judgment, considering vulnerability and risk, in determining the scope of the examination. Transaction testing will be done in accordance with the transaction test plan regardless of whether the test in question is a MAAR.</p>	
<p>6. The auditor should determine by checking the permanent files and prior audit working papers if significant costs related to CAS have been identified and to what extent required compliance testing has been accomplished. Testing for CAS 401, 402, 405, and 406 should</p>	

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be performed during this audit. Compliance with certain CAS 412 and 413 provisions related to defined benefit pension plans must be tested annually even if there are no incurred pension costs. Applicable audit steps are provided in this audit program at J-1, Intermediate Auditing Procedures. For all other applicable CAS provisions, compliance testing should be performed at least every three years, except if the contractor has made significant cost accounting changes that would require CAS compliance testing in the interim. If the required CAS compliance testing was not performed, the supervisor should determine that appropriate CAS compliance testing audit procedures are included in the program. Many CAS standards have been partially implemented by the FAR Cost Principles as follows:

	<u>Standard</u>	<u>FAR Reference</u>	<u>Standard</u>	<u>FAR Reference</u>
	401	31.201-1, 31.203(e)	410	31.203, 31.201-4
	402**	31.202, 31.203(b)	411	31.205-26
	403	31.203, 31.201-4	412*	31.205-6(j)
	404**	31.205-11(m), 31.205-16	413*	31.205-6(j)
	405**	31.201-2, 31.201-6	414*	31.205-10(b)(1)
	406	31.203(g)	415*	31.205-6(i) & (k)
	407	31.201-1	416*	31.205-19(a)
	408	31.205-6(a) & (m)	417	31.205-10(b)(1)
	409**	31.205-11	418	31.203, 31.201-4
			420*	31.205-18(b)

* These standards are incorporated by reference under most circumstances.

** These standards are substantively duplicated by the cost principles.

7. The determination of which audit codes will be established as work packages at major contractor locations will be determined during the planning process. The transaction test steps appearing in this audit program do not identify all of the assignments to be performed. The steps merely identify the MAARs applicable to each element of cost. The supplemental steps for each area should be identified and budgeted into that section.

8. This program does not provide detailed steps for the testing of individual transactions. Transaction test audit programs should be developed locally to permit the efficient gathering of evidential matter at individual locations. Transaction test audit programs which may have general applicability should be submitted through the region to Headquarters, ATTN: PAS for consideration for Agency-wide use.

The purpose of transaction testing is to determine that claimed costs are allowable, allocable, and reasonable. Transaction testing working papers should include the criteria (e.g., FAR citations/requirements) used to evaluate the transactions, the nature/description of the transaction evaluated, and the results of the evaluation.

9. The audit program steps should assist the auditor in determining the scope of audit and

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planning the transaction testing.	
a. Current year procedures include steps that can be performed before or during the contractor’s fiscal year. Preliminary steps, such as risk assessment, coordination with the ACO and other DCAA offices, and initial meetings with the contractor may be performed prior to the start of the fiscal year. Audit steps involving transaction testing can be planned throughout the year. How and when those steps are carried out is dependent on auditor judgment. The auditor and supervisor should reach a mutual understanding as to the timing of the audit steps to be performed.	
b. Intermediate procedures include steps that can be performed after the close of the contractor’s fiscal year but prior to receipt of a certified proposal.	
c. Final procedures include steps that can only be performed after receipt of a certified proposal.	
During the performance of each phase of the audit, the auditor should fully discuss any findings with the contractor. Reaching agreement on questioned costs during the audit will facilitate final agreement and audit report issuance.	
References	
1.	Cost Accounting Standards Board Rules, Regulations, and Standards
2.	FAR 42.7 and DFARS 242.7
3.	FAR 31.2, and DFARS 231.2
4.	Applicable Agency FAR Supplement(s)
5.	CAM 1-504, "Access to Records of Contractor"
6.	CAM 4-400, "Audit Working Papers"
7.	CAM Chapter 6, "Incurred Costs Audit Procedures"
8.	CAM Chapter 7, "Selected Areas of Cost"
9.	CAM 10-500, "Audit Reports on Annual Incurred Costs"
10.	Contractor Permanent Files and Internal Control Audit Planning Summary (ICAPS)
11.	CAM 6-100 and 6-1S1, "Mandatory Annual Audit Requirements (MAARs)"
12.	CAM 3-200, "Briefing of Contracts and Requests for Proposals"
13.	CAM 4-702.3 and Figure 4-7-3, “Examples of Characteristics and Types of Activity
14.	Associated with Illegal Expenditures and Acts for Specific Audit Areas”

B-1	Preliminary Steps	WP Reference
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1. Preliminary Risk Assessment	
a. Evaluate relevant information from the FAO program plan files to document the decision to perform a concurrent incurred cost audit.	
b. Coordinate with the contracting officer. Notify the contracting officer of the commencement of the audit and expected completion date (CAM 4-103). Discuss any concerns that the contracting officer might have and the planned audit steps that address the concerns, if applicable. Analyze any applicable advance agreements.	
c. The auditor should combine steps for planned internal control audits and CAS audits with the incurred cost audit steps to be performed during the contractor’s fiscal year, when feasible. The incurred cost matrix APCICApp.xls (located in “Other Audit Guidance” folder) should be used to identify where audit steps may be consolidated.	
(1) Check the FAO program plan files for planned Internal Control Audits or other system audits. Prepare a schedule for planned audits and where practical, plan the performance of the “Detailed Steps” of those assignments in conjunction with the auditing procedures of this audit program.	
(2) If the contractor is classified as non-major (where ICAPS have not been completed) and if the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2:	
(a) the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
(b) the procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or	
(c) the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data.	
When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4a and 10-504.4.	
(3) For CAS covered contractors, check the permanent file to ensure all significant CAS have been identified. Compliance	

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<p>testing for CAS 401/FAR 31.201-1 and 31.203(e); CAS 402/FAR 31.202 and 31.203(b); CAS 405/FAR 31.201-2 and 31.201-6; and CAS 406/FAR 31.203(g) should be performed in the applicable steps in this audit program. Compliance with certain CAS 412 and 413 provisions / FAR 31.205-6(j) related to defined benefit plans must be tested annually even if there are no incurred pensions costs. Applicable steps are at J-1, Intermediate Auditing Procedures. Compliance on other CAS standards should also be considered in the subsequent steps, if applicable. (See CAM 8-305). If additional compliance testing for other significant standards is required, coordinate with the supervisor to determine the feasibility of performing the necessary compliance audits concurrently with this audit.</p>	
<p>d. Identify areas of increased risk and reduced risk by evaluating the prior incurred cost audit files, CAS audits, and ICAPS.</p>	
<p>e. Evaluate audit leads from other audit assignments.</p>	
<p>f. In planning the audit, consider the impact of any external restructuring activities (CAM 7-1914):</p>	
<p>(1.) Obtain data to support the amortized restructuring costs claimed (e.g., amortization schedules for deferred restructuring costs and detailed schedules of the incurred restructuring costs by fiscal year, project and cost element). The support should be at a level of detail sufficient to allow the auditor to determine the allowability of incurred restructuring costs.</p>	
<p>(2.) Determine if the incurred restructuring costs are near or in excess of the negotiated ceiling.</p>	
<p>(3.) Based on the level of risk, develop appropriate detailed steps (transaction testing) to assure the contractor is properly classifying restructuring activities in accordance with established agreements and DFARS 231.205-70, if applicable.</p>	
<p>g. In planning and performing the examination, consider the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and • CAM 4-702, CAM Figure 4-7-3, CAM 6-305, and CAM 6-404-6. <p>Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually, or in combination). This should be done at the</p>	

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planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.	
h. In planning the audit, consider the impact of SAS 70, Reports on the Processing of Transactions by Service Organizations, as amended by SAS 88, Service Organizations and Reporting on Consistency, on audit scope by performing the following steps:	
Note: The JNTCIPRPEN program (Assignment Code 19412) for pension cost and the JNTCIPRINS program (Assignment Code 19416) for insurance costs also include the SAS 70 steps. If pension cost and insurance cost are selected for testing, the SAS 70 steps for service organizations related to those costs should be completed as part of those supplemental audit packages.	
(1) Determine if the contractor (user organization) uses any service organizations.	
(2) If service organizations are used, determine if the transactions processed by the service organization are material.	
(3) If transactions are material, determine if the service organization is part of the user organization's information system.	
(4) If so, determine the degree of interaction between the service organization and the user organization. If high (as in the case of payroll processing, where the service organization receives time and attendance information from the user organization, prepares the payroll, writes the checks, etc. and then the user organization performs tests of the processed payroll for accuracy), there is no need to obtain an understanding of the service organization's controls. If low (as when a trustee manages pension assets):	
(a) Obtain and evaluate the service agreement (contract).	
(b) Obtain and evaluate the service auditor's report (if any), referring to the guidance in CAM 4-1000, "Relying Upon the Work of Others."	
(c) If necessary, obtain and evaluate other information available at the user organization including user manuals, system descriptions, technical manuals, and other policies and procedures.	
(d) If necessary, obtain and evaluate any reports prepared by the user or service organizations' internal auditors relating to internal controls over transactions and processes.	

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(e) If necessary and with appropriate permission, visit the service organization and perform procedures or request an assist audit.	
(5) Summarize effects of evaluation of service organizations on scope of current audit.	
2. Coordination with Other DCAA Offices	
a. Request assist audits of contractor records maintained at other locations, including corporate or home office locations and Washington area offices (CAM 6-804, 805, and 806). The cognizant DCAA assist audit offices should be identified and contacted as early as possible so concurrent auditing procedures can be considered at these locations.	
b. The FAO and cognizant Field Detachment office should coordinate the performance of applicable concurrent steps (e.g., floor checks) to insure complete audit coverage of the contractor's fiscal year.	
3. Entrance Conference	
a. Obtain a list of planned audits/reviews to be performed by the contractor's internal and external audit staffs. If reliance can be placed on the work of others, the file should contain, at a minimum, the following documentation:	
(1) A copy of the report and/or written confirmation of the work performed.	
(2) The period of costs covered.	
(3) A summary of the result(s) of the audit(s)/review(s).	
(4) A statement of the degree of reliance placed on the work of others (a statement of the audit scope covered by this reliance).	
b. Confirm prior discussions with the contractor regarding the support to be provided throughout the audit. This includes the availability of personnel and supporting documentation. The auditor and contractor should agree on a date to receive the certified proposal.	
c. Discuss with the contractor the audit program steps that can be performed prior to the end of its fiscal year, including other audit assignment steps (e.g., CAS, ICRs); steps to be performed after the close of the fiscal year; and those steps that must be performed after receipt of the certified proposal.	
4. Tailored Steps	
a. Tailor the detailed steps using information obtained during the current planning process, recent audit experiences, the results of	

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<p>preliminary steps, especially new areas of risk and sources of reliance, and discussions with the contractor. Any significant changes in the planned scope of audit, including the addition or elimination of a step, must be fully documented.</p>	
<p>b. Transaction testing plans should be developed based on risk assessment and documented for both direct and indirect costs. Supplemental program steps should be approved by the supervisor. The areas where transaction testing will be performed should be discussed with the contractor. Throughout the contractor’s fiscal year, results should be discussed with the contractor. Significant unresolved issues should also be discussed with the ACO. In developing transaction tests, consider steps that can be consolidated with steps required under current Internal Control or CAS audits.</p>	
<p>(1) During the transaction testing, ensure that the contractor follows consistent practices in identifying all costs incurred for the same purpose, in like circumstances, as either direct or indirect only. Document any noncompliances. (CAS 402/FAR 31.202 and 31.203(b))</p>	
<p>(2) If during the current audit procedures, it is discovered that the contractor is not identifying and separating significant amounts of expressly unallowable costs in one or more accounts, stop the concurrent audit effort on those accounts until the deficiency is appropriately addressed/corrected by the contractor.</p>	

C-1	Background Information	WP Reference
	Version 2.0, dated April 2004	
	<p>1. MAAR #3: Determine if the current organization charts are contained in the permanent file. If applicable, study any updated charts to identify any changes in the organizational structure. Update the following information in the permanent file for the year being audited. If the information is not in the permanent files, obtain it during this audit.</p>	
	<p>a. Number of direct and indirect employees</p>	
	<p>b. Plant layouts and floorspace utilization</p>	
	<p>c. Services performed by outside auditors</p>	
	<p>d. Outside auditors’ plans for internal control examinations</p>	
	<p>e. Listing of financial and managerial reports</p>	

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f. Policies and procedures for employee awareness training. (CAM 5-907)	
2. Periodically assess the contractor's overall operation and update the permanent file if applicable.	
a. Determine whether any major changes have occurred or are expected to occur in the volume of business or through the modernization of manufacturing facilities.	
b. Determine whether these changes (if any) have had, or should have had, an impact on the contractor's direct/indirect charging practices, allocation bases, contract mix, etc.	
c. Determine if the contractor underwent or is planning a business combination which was/will be accounted for by the purchase method of accounting. If so, determine that the write-up (or write-down) of the asset values has been properly accounted for and claimed by the contractor. (CAM 7-1705.6 & 7)	
d. Evaluate any revisions to the CAS Disclosure Statement.	
3. Evaluate the Board of Directors' minutes. These minutes may document major decisions that affect the contractor's organization and operations for the year being audited. (CAM 3-104.16e)	

D-1	Contract Provisions	WP Reference
Version 2.0, dated April 2004		
1.	Evaluate the contractor's contract briefings. Ensure that all auditable contracts awarded during the year have been briefed. All auditable contracts must be briefed (CAM 3-200). If the contractor has not briefed all applicable contracts, the auditor should consider citing the contractor for a billing system deficiency. Any contracts that the contractor has not briefed should be briefed as part of this audit. Evaluate contract briefings for special contract provisions affecting costs. (Coordinate this step with effort performed in a recent billing system examination, if applicable.)	
2.	Look for rate ceilings or cost categories which may not be billed directly on large new contracts. Note for comparison to any unexplained changes in charging patterns (MAAR #7) identified. (CAM 6-604.1)	
3.	Note completed contracts for closeout.	

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E-1	Periodic Reconciliations	WP Reference
Version 2.0, dated April 2004		
<p>Most reconciliations are more efficiently performed at year-end or after the submission is received. However, if the contractor's system supports performing periodic reconciliations efficiently throughout the year, the auditor may perform them periodically. (Coordinate these steps with effort performed in the Indirect/ODC and/or Budget System Examinations, if applicable.)</p>		
<p>1. MAAR #15: Periodically compare the interim base and pool totals to the amounts for the same period of the prior year. Compare current actuals to budgetary amounts for the current period. Identify any significant variations that require further audit analysis and/or explanation. Determine if the indirect rate structure to accumulate actual costs are consistent with the indirect rate structure used to prepare forward pricing indirect rates for the same year. (CAS 401/FAR 31.201-1 and 31.203(e))</p>		
<p>2. MAAR #15: Periodically compare the interim detail accounts within pools to the amounts for the same period of prior years. Compare current actuals to budgetary amounts. Identify any changes in accounting practices and unexplained significant changes in the relative dollar value for follow-up.</p>		
<p>NOTE: While preparing the above comparison, identify the amount of proposed consultant costs and evaluate the significance and sensitivity of the proposed costs. If selected for testing, utilize the APCNSULT program to evaluate the proposed costs for allowability, allocability, and reasonableness. (FAR 31.205.33)</p>		

F-1	Direct and Indirect Labor	WP Reference
Version 2.0, dated April 2004		
<p>1. MAAR #6: Perform labor floor checks or labor cost charging and allocation audit. (CAM 6-404, 6-405) Obtain a listing of contractor employees by location to determine the need for any assist audits of offsite labor. Prepare requests for assist audits deemed necessary based on risk. (CAM 6-405.3a)</p>		
<p>2. MAAR #7: Evaluate changes in procedures and practices for direct/indirect time charging of contractor employees. Look at the analysis of changed conditions and direct and indirect labor account comparisons to prior years and to budgeted amounts for evidence of undisclosed changes in labor charging practices (CAM 6-604.1). Evaluate labor accounts for consistent classification between direct</p>		

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and indirect. (CAS 402/FAR 31.202 and 31.203(b))	
3. MAAR # 8: Comparative Labor Analysis. Perform comparative analysis of sensitive labor accounts, e.g., standby labor. Areas of risk may have been disclosed based on comparisons of direct and indirect labor accounts to prior years and budgets. (CAM 6-404.6b(4))	
4. MAAR #10: Labor Adjustments. Analyze adjusting journal entries and exception reports for labor costs. (CAM 6-404.6b(6))	
5. Executive Compensation: Perform sufficient steps to determine that all allocable direct and indirect executive compensation in excess of the statutory compensation ceilings (see CAM 6-414) has either been appropriately (1) excluded from the contractor's incurred cost submission or (2) identified as expressly unallowable costs questioned in the audit report. If another audit assignment has covered this step, reference the assignment and applicable working papers.	
6. If necessary perform any other required labor audits.	

G-1	Direct Material and Other Direct Costs (ODC)	WP Reference
Version 2.0, dated April 2004		
1.	MAAR #13: Purchases Existence, and Consumption. Perform physical observations of purchased parts or services. (CAM 6-305.3a(2))	
2.	MAAR #11: Purchasing Adjusting Entries. Evaluate adjusting journal entries and exception reports for costs of purchased services and material. (CAM 6-305.3a(1))	
3.	MAAR 12: Auditable Subcontracts. (Coordinate the steps in this section with effort performed during the most recent CPSR or Purchasing System Examination, if applicable.)	
	a. Evaluate the contractor's internal controls relating to subcontracts and intercompany orders. (CAM 6-800)	
	b. Evaluate the contractor's schedule of auditable subcontracts and intercompany orders under auditable type Government contracts and subcontracts and determine if the contractor has arranged for the required assist audit. If assist audits have not been initiated, coordinate with the contractor and the contracting officer to arrange for assist audit. (See CAM 6-801, 6-802, and 6-803.)	
4.	If necessary, perform other material audits, including make-or-buy decisions (CAM 6-309) and requirements audits (CAM 6-308).	

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<p>5. Other Direct Cost (ODC) (CAM 6-500) - Many, if not all ODC expense categories, have counterparts in the indirect cost pools, and may readily be combined with indirect costs for transaction testing. If a separate assignment is set up, reference the appropriate assignment number.</p>	
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H-1	Indirect Expenses	WP Reference
Version 2.0, dated April 2004		
	<p>1. MAAR 18 Indirect Allocation Bases - (To the extent practical, rely on the steps performed under a recent CAS 410, 418, and/or Indirect/ODC System Audit to satisfy these steps and reference here.) Determine that the allocation bases used by the contractor for the allocation of indirect costs are equitable and consistent with applicable CAS requirements, generally accepted accounting principles, and applicable provisions of the contract. (CAM 6-606)</p>	
	<p>2. The evaluation of indirect labor should be done in conjunction with the evaluation of direct labor.</p>	
	<p>3. MAAR #5: Income/Credit Adjustments. Analyze general ledger, trial balance, income/credit adjustments, and miscellaneous income accounts. (CAM 6-608.2d(5))</p>	
	<p>4. MAAR #16: Indirect Account Analysis. Evaluate significant or sensitive accounts or transactions and accounts selected through MAAR #15 audit. (CAM 6-608.2) Selected accounts audited on a concurrent basis should be accounts where the contractor has adequate point of entry or interim screening.</p>	
	<p>a. Accounts containing transactions to be audited via statistical sampling.</p>	
	<p>b. Accounts selected for 100% audit.</p>	
	<p>c. Accounts to be evaluated by audits other than transaction testing.</p>	
	<p>All accounts selected should be identified below. If a separate assignment is set up, reference the appropriate assignment number.</p>	
	<ul style="list-style-type: none"> • <i>Miscellaneous indirect/ODC accounts</i> (CAM 6-608) 	
	<ul style="list-style-type: none"> • <i>Service Centers</i> (CAS 418) 	
	<ul style="list-style-type: none"> • <i>Washington area office audits. Incorporate the results of the assist audit, if applicable.</i> (FAR 31.205-22) 	
	<p>5. MAAR #20: Evaluate adjusting journal entries (CAM 6-608.2c).</p>	

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6. Ensure the contractor follows consistent practices in selecting the cost accounting period(s) in which any types of expense and any types of adjustment to expense are accumulated and allocated. (CAS 406/FAR 31.203(g))	
7. Expressly Unallowable Costs. Determine if expressly unallowable, mutually agreed to be unallowable, costs which specifically become designated as unallowable by contracting officer's written decision, and directly associated costs are identified and excluded (CAS 405/FAR 31.201-6, CAM 7):	
a. Evaluate voluntary deletions and questioned costs for directly associated costs that should also be excluded/questioned.	
b. Determine that costs directly associated with an unallowable cost, if normally included in an indirect cost pool to be allocated over a base that contains the unallowable cost, are allocated through the regular allocation process.	

I-1	Special Purpose Evaluations	WP Reference
	Version 2.0, dated April 2004	
	1. Insurance (CAS 416, CAM 5-1303 and 7-500, and standard audit program JNTCIPRINS, Assignment Code 19416). The insurance summary on the final page of the standard audit program should be maintained in the permanent file and must be updated annually, regardless of whether an audit/review has been scheduled. (Audit effort performed in the most recent CIPR and CAS 416 audits/reviews should be relied upon in determining the extent of effort required on these steps.) (NOTE: The steps in JNTCIPRINS are applicable to both CAS covered and non-CAS covered contractors and should be adjusted appropriately based on the risk assessment.)	
	NOTE: Insurance costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Therefore, divisional auditors may need to request an assist audit from the FAO cognizant of the corporate home office.	
	2. MAAR #17: IR&D/B&P. Evaluate IR&D/B&P to verify proper classification and compliance with the terms of Government contracts and related agreements. (CAM 7-1500) (Consolidate the steps under this evaluation with steps performed in a CAS 420 audit, if applicable.)	
	3. Special Facilities Operating Costs, including GOCO rent allocations, if applicable and if programmed for audit. (CAM 6-607 and 7-300)	

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J-1	Intermediate Procedures	WP Reference
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	Intermediate procedures include steps that cannot be performed until after the contractor's fiscal year. A certified proposal is not required to perform these steps.	
	1. MAAR #16: Continue substantive testing on accounts with adequate screening. To render an opinion on the total year-end claimed amount, some final substantive testing on accounts tested during the current year should be performed.	
	2. MAAR #15: Perform a final comparison of base and pool totals to prior year and budgetary amounts. Compare detail accounts within pools to prior years and budget to identify any changes in accounting practice/unexplained disproportionate changes in relative dollar value not previously disclosed that require follow-up. (CAM 6-608.2c(2))	
	3. MAARs #10, 11 & 20: Evaluate year-end labor, purchasing and indirect expense adjusting entries.	
	4. Evaluate organizational and financial data not available during the year.	
	a. Obtain and evaluate a copy of the external auditor's internal control letter or a statement that the external auditor did not prepare an internal control letter.	
	b. MAAR #4: If the contractor is not a corporation which prepares consolidated financial statements, look at the contractor's tax returns, SEC filings and financial statements to highlight possible areas requiring further evaluation. Obtain documentation of evaluation at the corporate level, if appropriate.	
	c. MAAR #4: The corporate auditor, if applicable, should furnish copies of the consolidated financial statements to the division auditors. All auditors should read the notes to the financial statements for possible audit leads. Note unusual items for audit follow-up. (CAM 3-104.16e)	
	d. MAAR #9: Evaluate the contractor's end of the year quarterly reconciliation of payroll tax returns to total labor distribution. Identify the direct labor total for reconciliation of (fringe benefit and) labor overhead base(s). Trace labor reconciling items to the appropriate ledger. (CAM 6-406.2a(6) and CAM 7-1404)	

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<p>5. Based on year-end data, complete the balance of the MAARs started during the current audit procedures, if applicable. Perform year-end tests necessary to render an opinion on transactions processed between the date of the interim testing and year-end on both direct and indirect costs.</p>	
<p>6. Evaluate the Board of Directors' minutes not previously evaluated for the year being audited. (CAM 3-104.16e)</p>	
<p>7. Audit Pension Costs. (CAM 5-1303 and 7-600; CAS 412 and 413; FAR 52.216-7(b)(2); and standard audit program JNTCIPRPEN, Assignment Code 19412).</p>	
<p>a. IRS Form 5500 or other verifiable documents and funding should be examined annually for all plan types. Actuary's report and auditor's report should be evaluated for changes to defined benefit plans (e.g., a segment closing, plan termination, curtailment or other change in benefits, changes in actuarial assumptions, etc.). All three external documents should be retained in the permanent file.</p>	
<p>b. If pension costs are incurred for the year, the standard audit program, JNTCIPRPEN, should be used to review those costs and the contractor's compliance with applicable provisions of CAS 412 and 413. (NOTE: The audit steps in JNTCIPRPEN are applicable to both CAS covered and non-CAS covered contractors and should be adjusted appropriately based on the risk assessment.)</p>	
<p>c. If no pension costs are incurred for the year, the following steps are mandatory for defined benefit plans:</p>	
<p>(1.) Determine if any events have occurred since the last audit that would require an adjustment to previously determined pension costs per CAS 413.50 (c)(12); i.e., a segment closing, pension plan termination, or curtailment of benefits. If so, in addition to completing the steps below, a special CIPR must be performed using the standard audit program, JNTCIPRSEG.</p>	
<p>(2.) Evaluate the Trustee report and obtain an explanation for any significant withdrawals of pension assets. Perform additional audit steps as needed to ensure that Government-contributed pension assets are protected.</p>	
<p>(3.) Determine if any events have occurred since the last audit that may result in conditions that require segment accounting (CAS 413.50(c)(2) and (3)). If so, recommend to the ACO that a special CIPR be performed to verify that the contractor has complied with CAS 413.50(c)(2), (3),</p>	

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and (5).	
(4.) If it is the contractor's practice to calculate pension costs by segment:	
(a) Verify that the records required by CAS 413.50(c)(7) are properly maintained and that investment earnings of the trust are allocated in accordance with CAS 413.50(c)(7).	
(b) Determine if the transfer of active employees among segments distorts the ratio of assets to the actuarial accrued liabilities.	
(c) If so, verify that assets equal to the employees' actuarial accrued liabilities (determined using the accrued benefit cost method) were transferred in accordance with CAS 413.50(c)(8). (Consider requesting assistance from the DCMA pension specialist through the ACO (CAM 5-1303.1c)).	
NOTE: Pension costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Therefore, divisional auditors may need to request an assist audit from the FAO cognizant of the corporate home office.	
8. Check the status of the assist audits and incorporate results received into the audit. Follow up as needed on the balance of the assist audits.	
9. If reliance was placed on the work of others, document the file. (CAM 4-1005)	

K-1	Final Procedures	WP Reference
	Version 2.0, dated April 2004	
	Final procedures include steps that cannot be performed until the certified proposal is received. These steps include evaluating the proposal for adequacy and reconciling the proposal to data audited during the year. Additionally, there may be steps that could not be performed on a concurrent basis. Results should be discussed with the contractor. Significant unresolved issues should also be discussed with the ACO.	
	1. Examine the contractor's proposal. The proposal must be accompanied by an overhead certification, and the following data should either be included with the proposal or be available in the	

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contractor's files (CAM 6-707.1):	
a. Summary schedule of bases, pools, and rates and certification of allowability.	
b. Detail schedule of account balances within pools.	
c. Schedule of auditable contracts and subcontracts by Government agency.	
The contracts should be cross-referenced to the contractor's internal job numbers. The schedule should identify: <ul style="list-style-type: none"> • CAS covered contracts • Contracts that contain or should contain the penalties clause (FAR 52.242-3 or DFARS 252.231-7000) (CAM 6-609) • Contracts that are subject to the executive compensation limitation (FAR 31.205-6 or DFARS 231.205-6) 	
d. Schedule of direct costs by element by (sub)contract, including direct hours by labor category for T&M contracts.	
e. Schedule of contract closing information for contracts completed during the fiscal year and a schedule of cumulative direct and indirect costs claimed and billed.	
f. Reconciliation of booked to billed costs.	
2. MAAR#19: Verify the mathematical accuracy of the contractor's rate computations including the computation of the IR&D/B&P costs. (CAM 6-611.1a) Verify that the contractor has included voluntary deletions/unallowable costs in the applicable allocation bases.	
3. Determine if the contractor uses the fiscal year as its cost accounting period. (CAS 406/FAR 31.203(g)) (See CAM 8-406.1 and 6-605 for exceptions to the fiscal year.)	
4. MAAR #2: Evaluate summaries of the contractor's total annual contract costs by major cost element and verify that the auditable contract costs reconcile to the contractor's accounting records by cost element. (CAM 6-610.1)	
5. MAAR #14: Evaluate the contractor's reconciliation of proposed base and pool totals to the contractor's accounting records. Interim accounting data relied upon during the concurrent audit should be reconciled to the contractor's submission. Verify that the contractor has excluded any agreed-to questioned costs from its proposal (CAM 6-610.1 and 6-610.2). Evaluate items requiring follow-up. Evaluate any significant adjustments made to accounts previously examined.	

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6. Look at the contractor's disposition of the assist audit results for subcontract audits. Reconcile the allowable costs reported for the subcontract in the assist audit report with the claimed subcontract costs in the contractor's submission. Follow-up as needed with the assist auditor.	
7. Perform transaction testing on sensitive and high risk accounts. An account would be classified as high risk for concurrent auditing if:	
<ul style="list-style-type: none"> • The contractor has inadequate point of entry or interim screening for the account or 	
<ul style="list-style-type: none"> • Transaction testing on the account was suspended during interim testing due to internal control weaknesses. 	
8. Examine the contractor's data and computations supporting the final executive compensation amounts included and excluded for the contractor's year-end calculations. (CAM 6-414)	
9. Completion of Field Work:	
a. Update the schedule of auditable contracts/subcontracts.	
b. Calculate the Government cost-type, T&M, and FPI percentages of the indirect expense bases using the schedule of direct costs by element.	
c. If a billing system audit was not performed in this CFY, test the contractor's reconciliation of booked to billed costs.	
(1.) Evaluate the materiality of any overbilled amounts both at the contract and individual contract level.	
(2.) If overbilled amounts are considered to be material, discuss with the supervisor the need to set up a billing system audit or special purpose audit of contractor overpayments to resolve the overbilling.	
(3.) If the contractor has been authorized to direct bill, determine whether the contractor should continue to be authorized to direct bill (see CAM 6-1007).	

A-1	Concluding Steps	WP Reference
Version 2.0, dated April 2004		
	1. Summarize results of transaction tests.	
	2. Summarize results of testing for compliance with FAR and CAS 401, 402, 405, 406, and any other CAS standard considered during this audit.	

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3. If contracts contain or should contain the penalties clause, and expressly unallowable costs were included in the certified proposal, prepare a schedule of questioned costs by penalty class within indirect cost pools and percent of the base subject to penalty. (CAM 6-609.f(5) and 10-504.5e(6))	
4. Update the schedule of allowable costs by contract, if applicable. (CAM 10.504.5d(8))	
5. Incorporate results of supervisory review.	
6. Prepare a schedule of questioned costs for the exit conference.	
7. Hold the exit conference. Refer to CAM 6-708 and 6-709.	
8. Summarize the results of the audit and the exit conference.	
9. Perform permanent file update.	
a. Update relevant ICAPS (MAAR #1). (CAM 3-300)	
b. Update permanent file (MAAR #3). (CAM 4-405.1)	
c. Update the MAARs Control Log (CAM 6-105.2a). Include a completed copy of the control log in this working paper package. The control log must be signed by the supervisory auditor after reviewing the referenced working papers or audit working papers to insure that they include adequate MAARs coverage or an explanation in the working papers to support a “not required” coding. Document any known system weaknesses and note any matters which should be considered in subsequent price proposal audits. Where appropriate, update the permanent file.	
10. Report Preparation And Supervisory Review	
a. Prepare the draft report and rate letter or DCAA Form 1 (CAM 6-900). Attach applicable appendixes to the final report. (CAM 10-505)	
b. If applicable, prepare CAS noncompliance and internal control deficiency reports.	
c. If the auditor has encountered information that constitutes evidence or raises suspicion of fraud or other illegal acts have occurred, refer such suspicion by completing the DCAA Form 2000 in accordance with CAM 4-702.4.	
d. Calculate dollars audited and cost savings.	
e. Post hours and other data to the audit program and DMIS input form.	
f. Incorporate results of supervisor, FAO chief, and RAM reviews. The top page of the final draft report should be	

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<p>initialed and dated by the reviewer(s) to document approval.</p>	
<p>11. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:</p>	
<p>a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.</p>	
<p>b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.</p>	
<p>c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.</p>	
<p>d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.</p>	
<p>e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.</p>	
<p>f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to</p>	

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<p>make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.</p>	
<p>g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor's initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.</p>	
<p>h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.</p>	
<p>i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.</p>	
<p>j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.</p>	
<p>k. Securely enclose the "backup" set of electronic files (CD) and any "official" set of hard copy in the hard copy folder.</p>	
<p>l. File the "official" set of electronic files in iRIMS (see iRIMS User Guide).</p>	
<p>m. <u>Do Not File Sensitive Audits in iRIMS:</u> Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.</p>	