

Master Document – Audit Program

Activity Code 10310		Non-Major Contractors Labor Floorchecks
Version 2.0, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
1. The purpose of this procedure is to test:		
<ul style="list-style-type: none"> • the contractor’s compliance with its timekeeping internal controls and procedures; and • the reliability of employee time records. 		
Also, to verify that:		
<ul style="list-style-type: none"> • employees are actually at work; • they are performing in assigned job classifications; and • time is charged to the proper cost objective. 		
2. This program should be used to perform labor floor checks at nonmajor contractor locations to satisfy the mandatory annual audit requirement relating to labor floor checks (MAAR 6). This MAAR is classified as concurrent and must be performed for the current year during the first field visit to the contractor facility within the year. This will normally be accomplished during the price proposal audit or annual incurred cost audit.		
3. Floor checks are most appropriate when no high-risk areas have been identified. If audit leads from prior evaluations suggest significant risk exists, the auditor may consider performing labor interviews (APLABRCK). The extent of audit effort in testing and verifying labor costs is dependent on the perceived audit risk and is influenced by (1) the nature and significance of labor and related expenses, (2) prior audit experience with the contractor, (3) the reliability and acceptability of the contractor's labor system and related internal controls, (4) the contractor's mix of contracts and nature of contract provisions, and (5) the nature of the contractor's organization and operations.		
4. This program contains audit steps that will help satisfy all or part of the following mandatory annual audit requirements (MAARs):		
a. MAAR 1 - Update Internal Control Survey		
b. MAAR 3 - Permanent Files		
c. MAAR 6 - Labor Floor checks, Interviews, Etc.		
d. MAAR 9 - Payroll/Labor Distribution Reconciliation/Tracing		

Master Document – Audit Program

References
1. CAM 6-400 - Audit of Incurred Labor Costs
2. CAM 6-800 - Assist Audit of Incurred Costs,
3. CAM 10-413 – Real Time Reporting,
4. CAM 10-808 - Audit Reports on Noncompliance with Disclosed or Established Practices, CAS, or FAR
5. CAM 4-702.3 and Figure 4-7-3 identify "Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas"

B-1	Preliminary Steps	WP Reference
Version 2.0, dated April 2004		
1.	Read CAM 6-405.	
2.	Look at the ICQ or labor Internal Control Audit Planning Summary (if applicable) and related section of the contractor's permanent file to obtain a understanding of the contractor's labor accounting policies, procedures, and the level of control risk associated with the related internal controls. Contractor organization charts, labor charging and distribution system flowcharts, and listings of current Government contracts are very useful sources of information and should be referred to often during the analysis. All relevant information gathered during the audit should be referenced in the permanent file. (MAAR 3)	
3.	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	

Master Document – Audit Program

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 10-504.4a.	
4. Coordinate the evaluation with the ACO and other contracting officer representatives Request representatives of the contracting officer to accompany the audit teams during the floor check. If the work is technical in nature, so that the auditor might be unable to determine whether the employee is performing the effort being charged, consider requesting technical specialist assistance.	
5. Obtain a listing of employees by location. Determine if any assist audits are required for any off-site locations (CAM 6-405.3a) Request and track any assist audits in accordance with CAM 6-805.	
6. Determine if the contractor has an employee work at home program and assess the materiality of the costs incurred by employees in the program. See CAM 6-405.5.	
7. Hold an entrance conference with the contractor to exchange preliminary information about the audit and to enable the contractor to provide a briefing about its labor charging and allocation policies.	
a. Discuss the general time period of audit performance.	
b. Advise the contractor that the evaluation will include unannounced interviews or floor checks.	
c. Request the contractor designate a representative and alternate to accompany the audit team during the interviews or floor checks. A representative and alternate should be designated for each of the contractor's locations.	
d. Establish procedures for conducting interviews or floor checks. Inform the contractor that documentation will be requested from the employee during the interview or floor check to support the labor effort.	
e. Request a contractor representative to act as audit coordinator for discussing audit progress and findings.	
8. Request and evaluate the contractor's internal audits of labor floor checks and labor charging and allocation. Document any reported deficiencies and corrective actions.	
9. In planning and performing the evaluation, consider the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:	

Master Document – Audit Program

<ul style="list-style-type: none"> Handbook on Fraud Indicators for Contract Auditors, Section II.1 (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and 	
<ul style="list-style-type: none"> CAM 6-405.3.i & q and CAM Figure 4-7-3. 	
<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 planning stage of the evaluation as well as during the evaluation if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p>	

C-1	Floor Check Procedures	
	Version 2.0, dated April 2004	WP Reference
	<p>Note: Observations of work areas (floor checks) are appropriate when there is limited Government risk or vulnerability. In addition, the performance of floor checks will help satisfy the mandatory annual audit requirement relating to labor floor checks (MAAR 6).</p>	
	1. Obtain a control list or roster of employees assigned to the department or area to be checked.	
	2. Depending on audit circumstances and objectives, randomly or judgmentally select employees to be floor checked. If randomly, use the procedures described in Appendix B of CAM.	
	3. Gather appropriate background data on the selected employees such as ID number, job classification, and nature of work usually performed by the employee and his/her department or cost center.	
	4. Prepare worksheets to use during the floor checks to help guide the questioning and record the employee's responses. (See LBR-Floor check Worksheet in "Other Guidance" folder.)	
	5. Brief all audit team members on the overall audit objectives and necessary background information.	
	6. Obtain a plant layout and note the selected employees' locations.	
	7. Floor check the employees selected.	
	a. Identify each selected employee by verifying the employee's ID number and name to the control list or roster.	
	b. Discuss the nature of the work being performed and observe the actual work performance to determine whether the employee is performing in the proper direct or indirect labor capacity and whether the time is being charged correctly. If the	

Master Document – Audit Program

work is technical in nature, see preliminary step 3.	
c. Discuss the employee's timekeeping procedures to determine compliance with internal controls.	
d. Compare employee responses with previous data gathered. If inconsistent, ask appropriate follow-up questions.	
8. For selected employees not available for the interview, attempt to perform a follow-up interview. If a follow-up interview is not practical, perform additional audit steps to verify employee existence. These steps may include; an observation of the employee's work area, an evaluation of the employee's personnel/security file, and/or a follow-up telephone interview.	
9. When an employee selected to be floor checked is not present at the normal work-site due to a work at home (WAH) program, the employee's supervisor should be interviewed. Discussions with the supervisor should concentrate on obtaining evidence of the employee's work, and documented evidence of supervisory control over the employee's WAH schedule. The auditor should also communicate with the employee by telephone to determine if the employee has knowledge of WAH procedures, and discuss the specific type of work being performed along with the related labor charge numbers. If the employee has a regularly scheduled meeting with the supervisor in the near future, any questionable procedures or practices identified by these steps can be discussed and verified with the supervisor and employee at that time. In addition, the individual's employment should be verified to the payroll/personnel records. See CAM 6-405.5.	
10. Obtain prompt explanations concerning all questionable procedures observed. This may require discussions with employee supervisors, contractor management, accounting, and other appropriate personnel.	
11. Reconcile the observations regarding the employees' labor charges with subsequent payroll and/or labor distribution records and follow-up on any discrepancies. For assist audits conducted at off-site locations, the auditors at the primary location are responsible for reconciling the time charges collected at the time of the employees' floor checks to the labor distribution records when the official books and records are maintained at the primary location.	
12. Develop audit results using the appropriate steps from the Development of Audit Findings Section.	

Master Document – Audit Program

D-1	Development of Findings	
Version 2.0, dated April 2004		WP Reference
1.	Analyze the data gathered during the floor checks with all information previously gathered to establish the propriety of the labor.	
2.	Discuss audit results with the audit supervisor.	
3.	If applicable, determine if the labor mischarges disclosed represent isolated instances or indicate more widespread conditions. This may require the performance of additional employee interviews or floor checks.	
4.	Determine any costs questioned related to labor mischarges. Costs questioned should be specifically identified to each risk area.	
5.	If conditions which raise a reasonable suspicion of fraudulent or other suspected irregular activities are disclosed and can not be resolved through audit, promptly report these as described in 4-702.4.	
6.	Incorporate any assist audits, update the FAO assist audit tracking system (CAM 6-801.1h.), and follow-up on any outstanding assist audits.	

A-1	Concluding Steps	
Version 2.0, dated April 2004		WP Reference
1.	Read CAM 6-403.	
2.	Conduct an exit conference in accordance with CAM 4-304.	
3.	Discuss the findings and recommendations with the contracting officer.	
4.	If no significant deficiencies are disclosed, prepare a MEMORANDUM FOR RECORD to close assignment and incorporate the results into a final incurred cost audit report. If significant internal control deficiencies are disclosed, draft a flash report using the format in CAM 10-413. Use the format in CAM 10-808 for reporting CAS/FAR noncompliances.	
5.	If applicable, schedule a follow-up evaluation to be performed within a reasonable period of time.	
6.	Summarize and cross-reference work papers. Submit the work package for supervisory review.	

Master Document – Audit Program

7. Update the ICQ or ICAPS, as appropriate.	
8. Update the MAARs control log, as appropriate. Prepare a MAARs control log for the contractor’s fiscal if one has not already been prepared.	
9. 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:	
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.	
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.	
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.	
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.	
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.	
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	

Master Document – Audit Program

<p>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 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>	

Master Document – Audit Program