

**Master Document – Audit Program**

Activity Code 10320	MAAR 13 – Purchase Existence and Consumption
Version 2.6, dated April 2016	
B-1	Planning Considerations
<b>Audit Specific Independence Determination</b>	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 34) prior to starting any work on this assignment.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g., FAO technical specialist) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p>	
<b>Purpose and Scope</b>	
<ol style="list-style-type: none"> <li>1. The purpose of this evaluation is to verify that purchased direct materials/services were, in fact received and ascertain that they were: <ul style="list-style-type: none"> <li>• needed for the contract;</li> <li>• purchased in reasonable quantities;</li> <li>• purchased at a prudent price,</li> <li>• used on the contract, and</li> <li>• properly accounted for as to initial charge, transfer in or out, and residual value.</li> </ul> </li> </ol>	
<ol style="list-style-type: none"> <li>2. This program should be used to verify purchased materials/services existence and consumption at major and non-major contractor locations to satisfy the mandatory annual audit requirement (MAAR) requiring verification that material was received and, if applicable, used on the contract. For mobile contractors, MAAR 13 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 a price proposal audit, annual incurred cost audit, or within a specific material audit.</li> </ol>	
<ol style="list-style-type: none"> <li>3. "Purchased materials" are raw materials, purchased parts, subassemblies, etc., which are physically incorporated into an end product. Equipment purchased for the customer's use on a flow-through basis, such as computer hardware, or commercially available items for the contractor's use in performing the contract such as trucks and other equipment, are not deemed to be incorporated in the end product.</li> </ol>	
<ol style="list-style-type: none"> <li>4. "Purchased services" may include the performance of certain contract tasks by non-</li> </ol>	

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<p>company personnel under the direction of the contractor or replacing entire functions within the contractor’s organization. Services provided include purchased direct labor personnel to meet temporary requirements, who are supervised by the contractor, or purchasing specific types of services, such as engineers, technical writers and craftsmen, on a regular basis to perform contract requirements.</p>
<p>5. If audit leads from prior evaluations suggest significant risk exists, the auditor should consider performing a MMAS review outside the normal cycle. The extent of audit effort in testing and verifying purchases existence and consumption is dependent on the perceived audit risk and is influenced by (1) the nature and significance of purchased material and services expenses, (2) prior audit experience with the contractor, (3) the reliability and acceptability of the contractor’s MMAS 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.</p>
<p>6. If the purchased services costs include a significant amount of consultant service costs, the consultant costs should be audited using the Consultant Services audit program (under 10160 activity code in APPS) to evaluate those costs for allowability, allocability, and reasonableness in accordance with FAR 31.205-33.</p>
<p>7. This program contains audit steps that will help satisfy all or part of the following mandatory annual audit requirements (MAARs):</p>
<ul style="list-style-type: none"> <li>• MAAR 1 – Update Internal Control Survey</li> </ul>
<ul style="list-style-type: none"> <li>• MAAR 3 – Permanent Files</li> </ul>
<ul style="list-style-type: none"> <li>• MAAR 13 – Purchases Existence and Consumption</li> </ul>
<p><b>Other Planning Considerations</b></p>
<p>Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.</p>
<p><b>References</b></p>
<p>1. CAM 6-300 Audit of Incurred Material Costs and Purchased Services</p>
<p>2. CAM 5-600 Audit of Purchasing System Internal Controls</p>
<p>3. CAM 5-700 Audit of Material Management and Accounting Systems Internal Controls</p>
<p>4. DFARS 242.72, 244, 252.242-7004, and FAR 31.205-26</p>
<p>5. CAM 10-413 Real Time Reporting (Flash Reports)</p>
<p>6. CAM 10-806 Audit Reports on Noncompliance with Disclosed or Established Practices, CAS, or FAR (Noncompliance Reports)</p>
<p>7. CAM 4-702.3 and Figure 4-7-3 Identify “Examples of Characteristics and</p>

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Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas”
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<b>B-1</b>	<b>Preliminary Steps</b>	
	<b>Version 2.6, dated April 2016</b>	<b>W/P Reference</b>
	1. Review CAM 6-300	
	2. Review the ICQ or MMAS and Purchasing System Internal Control Audit Planning Summary (ICAPS) (if applicable) and related section of the contractor's permanent file to obtain a understanding of the contractor's material accounting policies, procedures, and the level of control risk associated with the related internal controls. Contractor organization charts, material 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. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.	
	4. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit. If the work is technical in nature, so that the auditor might be unable to determine whether the effort is being appropriately charged, consider requesting specialist assistance.	
	5. Electronically transmit an acknowledgement/notification to the ACO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.	

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<p>6. Consider audit leads or key prior audit findings from a review of permanent files and prior audits.</p>	
<p>7. Determine whether there are any outstanding contract or CAS noncompliances affecting purchased materials/services (particularly CAS 402 and 411). If there are noncompliances, discuss with your supervisor how they will affect your audit scope.</p>	
<p>8. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures:</p> <ol style="list-style-type: none"> <li>a. During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.</li> <li>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.)</li> </ol>	
<p>9. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <ol style="list-style-type: none"> <li>a. During the entrance conference: <ul style="list-style-type: none"> <li>• Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.</li> <li>• Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any</li> </ul> </li> </ol>	

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<p>related findings or recommendations, and any contractor corrective actions taken as a result.</p> <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"> <li>• Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment.</li> <li>• Document the results of the determination in writing.</li> <li>• If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.</li> <li>• If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports.</li> <li>• The request, issued by the CAC, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers.</li> </ul> <p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> <li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li> <li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li> </ul> <p>d. Document the results of the inquiries including the response received from contractor’s for any request for access to internal audit reports. (If access was not granted this should include the contractor’s rationale or justification for not granting access).</p> <p>e. Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)</p>	
<p>10. Hold an entrance conference with the contractor to exchange preliminary information. If applicable, include a follow up with contractor management on:</p> <p>a. corrective actions that address previous DCAA audit findings</p>	

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<p>and recommendations (step 9),</p> <p>b. other studies or audits that impact the subject matter under audit (step 10).</p>	
<p>11. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>12. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be documented in the working papers.</p>	
<p>13. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential noncompliances, due to error or fraud, that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"> <li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies)</li> <li>• relevant aspects of the contractor and its environment</li> <li>• risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements)</li> <li>• other known risk factors</li> <li>• the audit team’s understanding of relevant internal controls,</li> <li>• inquiries to the contractor regarding its fraud management plans and controls</li> </ul> <p>Document fraud risk factors/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p>	

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<ul style="list-style-type: none"> <li>• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (<a href="http://gao.gov/products/GAO-12-331G">http://gao.gov/products/GAO-12-331G</a>)</li> <li>• AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (<a href="http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf">http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf</a>)</li> <li>• DoDIG’s Contract Audit Fraud Scenarios and Resources website (<a href="http://www.dodig.mil/resources/fraud/resources.html">http://www.dodig.mil/resources/fraud/resources.html</a>)</li> </ul> <p>(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
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<b>C-1</b>	<b>Verification of Purchases Existence and Consumption</b>	<b>W/P Reference</b>
	<b>Version 2.6, dated April 2016</b>	
	1. Obtain the appropriate contractor accounting records that support the direct charges to contracts and provide the detail of materials and services purchased from an immediately prior accounting/reporting period (preceding day, week, or month) (CAM 6-302f., g., & h.).	
	2. Select an appropriate sample from the contractor’s accounting records.	
	3. Physically locate all sample material items and/or verify that the sample services have been received/performed. Determine if any assist audits are required for any off-site locations (CAM 6-305.3a(2)). Request and track the assist audit in accordance with CAM 6-805. (MAAR 12)	
	4. If the selected parts are not located at the contractor’s facilities, the auditor needs to perform sufficient follow-up effort. Similarly, if selected purchased services are not being performed at the primary contractor's location, sufficient follow-up effort is required to verify the services are being performed. Follow-up effort could include:	
	a. Request confirmation of the existence of selected parts and/or the performance of purchased services from the cognizant offsite auditors.	
	b. Review shipping and receiving documents.	
	c. Make inquiries to contractor and/or Government personnel and confirm through other corroborating evidence.	
	5. Obtain purchase orders for the sampled materials/services and trace to receiving reports.	

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6. Match receiving reports to vendor invoices.	
7. Verify that the sampled items were:	
a. Needed for the contract, by comparing purchase requisitions or purchase orders to contract requirements and/or bill of materials.	
b. Purchased in reasonable quantity (If a Purchasing System ICR or MMAS ICR is planned for the current fiscal year at this contractor, this step should not be included in the MAAR 13 review since it is covered in greater detail in the ICR).	
c. Purchased at a prudent price (If a Purchasing System ICR or MMAS ICR is planned for the current fiscal year at this contractor, this step should not be included in the MAAR 13 review since it is covered in greater detail in the ICR). All significant transactions involving charging to Government contracts on a basis other than cost should be reviewed.	
d. Used on the contract. When materials are requisitioned from stores, audit tests should include items charged to work orders or similar records.	
e. Properly accounted for as to initial charge, transfer in or out, and residual value in the accounting records. Miscellaneous costs associated with material purchases, such as transportation, charged directly or as items of indirect costs should be reviewed, if material or risk warrants.	
f. Considered properly for make or buy.	
8. Perform a follow-up of any back-ordered materials. Verify that these materials were either received at a later date or deleted from applicable vendor invoices.	

<b>D-1</b>	<b>Development of Findings</b>	<b><u>W/P Reference</u></b>
	<b>Version 2.6, dated April 2016</b>	
	1. Document the sample audit results.	
	2. Discuss audit results with the audit supervisor.	
	3. If applicable, determine if material mischarges disclosed represent isolated instances or indicate more widespread conditions.	
	4. Determine any costs questioned related to material mischarges.	
	5. If conditions which raise a reasonable suspicion of fraudulent or other suspected irregular activities are disclosed and cannot be resolved by audit, promptly report these as described in CAM 4-702.4.	
	6. Incorporate any assist audits, and follow-up on any outstanding	

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assist audits.	
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A-1	Concluding Steps	W/P Reference
<b>Version 2.6, dated April 2016</b>		
	1. Conduct an exit conference in accordance with CAM 4-304.	
	2. Auditors should document and communicate with the contracting officers upon the completion of our audit:	
	a. Brief the requestor/contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues.	
	b. Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.	
	3. Prepare a MEMORANDUM FOR RECORD documenting your results for incorporation in the future incurred cost audit. If the contractor does not agree with any identified questioned cost(s), draft a DCAA Form 1 in accordance with CAM 6-900. If the assignment is an assist audit, provide a copy of the memo to the requesting office.	
	4. If material weaknesses/significant internal control deficiencies are disclosed, ensure that the findings have been fully developed (including the specific audit criteria are identified (i.e., DFARS 252.242-7006(c)(12)) and that a material weakness truly exists. If so, open a 11090 assignment to report the deficiencies. The deficiency report should be submitted to the contractor for comment.	
	5. If applicable, schedule a follow-up review to be performed within a reasonable period of time.	
	6. Summarize and cross-reference working papers. Submit the audit work package for supervisory review.	
	7. Update the ICQ or ICAPS, as appropriate. (MAAR 1)	
	8. Update the MAARs control log, as appropriate. Prepare a MAARs control log for the contractor’s fiscal year if one has not already been prepared.	