

Master Document – Audit Program

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| Activity Code 11020 | Budget and Planning System Internal Controls |
| Version 5.7, dated June 2012 | |
| B-1 | Planning Considerations |
| Purpose and Scope | |
| The major objectives of this audit are to: | |
| <ul style="list-style-type: none"> • Evaluate the adequacy of and the contractor’s compliance with the budget and planning system internal controls. | |
| <ul style="list-style-type: none"> • Obtain a sufficient understanding of the contractor's budget and planning system and related internal control (including both manual and computerized activities) to plan related audit effort. This requires that the auditor assess the adequacy of the contractor's policies and procedures, whether they have been implemented, and if they are working and being monitored effectively. | |
| <ul style="list-style-type: none"> • Document the understanding of the budget and planning system internal controls in working papers and permanent files. | |
| <ul style="list-style-type: none"> • Assess control risk as a basis to identify factors relevant to the design of substantive tests. | |
| <ul style="list-style-type: none"> • Report on the understanding of the budget and planning system internal controls and assessment of control risk, and the adequacy of the system for Government contracts. | |
| <p>This audit is limited to the examination of the budget and planning system and related internal controls for major contractors, nonmajor contractors where the system is considered significant, and other contractors with substantial firm-fixed price contracts. Only those controls directly related to the contractor's budget and planning system, as defined below, will be audited under this assignment. Controls for interrelated audit concerns regarding the adequacy of the contractor's other major systems (i.e., labor, estimating, etc.) will be audited under separate assignments. While the controls for these areas are not part of this audit, the results of all audits of these interrelated controls must be considered in forming an overall audit conclusion on the budget and planning system internal controls. The results of this audit should be commented on in reports on related audit areas.</p> | |
| <p>When performing an update or follow-up examination, the audit steps should be adjusted and tailored accordingly. To the extent possible, prior audit effort should be used as a basis for validating the contractor's internal controls.</p> | |
| <p>Before beginning this examination, the auditor should be alert for internal control evaluations performed by the contractor or its external auditors relating to this audit area. In those cases where internal control evaluations have been performed, the auditor should follow the guidance contained in CAM 4-1000, Relying Upon the Work of Others.</p> | |
| <p>Before performing any examination of internal controls, the auditor should determine that the</p> | |

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| <p>system contemplated for examination is material to the Government. Once it is determined that the system is material to the Government, the auditor should reassess the materiality of each section in the internal control audit before performing any audit steps in that section. The scope of any audit depends on individual circumstances. The auditor is expected to exercise professional judgment, considering vulnerability and materiality, in deciding the scope of audit to be performed.</p> |
| <p>The use of computers of all kinds in a contractor’s accounting and management system is so pervasive it is unlikely that any audit of them could be performed adequately without an examination of the internal controls over their automated aspects. Therefore, the auditor should become familiar with guidance contained in the Information System (IS) Auditing Knowledge Base that is found on DCAA’s Intranet, prior to the beginning of this audit. In addition, in some instances, the assistance of IT specialists may be required to adequately evaluate the automated aspects of the internal controls. In these cases, auditors should coordinate, through their supervisory auditor, to contact their regional office to obtain the necessary expertise.</p> |
| <p>The internal control matrix (see Internal Control Matrix – Budget and Planning System and Related Internal Controls) showing the interrelationships among the control objectives, example control activities, and audit procedures used in this audit program. The control objectives and the audit procedures have been fully integrated into this audit; therefore, the matrix is not needed unless it is desirable to see the associated example control activities and the interrelationships in a matrix format.</p> |
| <p>In cases where this examination covers internal control systems at multi-segment contractors, follow the guidance in CAM 5-103.2 and 5-110e. Auditing internal controls at multi-segment contractors requires effective coordination among cognizant auditors to identify the audit responsibilities at each location to ensure appropriate audit coverage when contractor locations share components of an internal control system, such as policies and procedures, common technologies (e.g., software) or common management. FAOs cognizant of segment locations should initiate assist audits from off-site locations as necessary. FAOs cognizant of off-site locations should not self-initiate audits of internal controls.</p> |
| <p>References</p> |
| <p>1. CAM 3-300, Internal Control Audit Planning Summary (ICAPS)</p> |
| <p>2. CAM 5-500, Audit of Contractor Budget and Planning System Internal Controls</p> |
| <p>3. CAM 10-400, Audit Reports on Operations and Internal Control (System Audits)</p> |

| B-1 | Preliminary Steps | W/P Reference |
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| | Version 5.7, dated June 2012 | |
| | 1. Research and Planning | |

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| a. Review the open MRD’s for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for “MRDs, AGMs, & AMGMs” | |
| b. Become familiar with applicable sections of CAM 5-500. | |
| c. Perform the following steps using the permanent file: | |
| (1) Review the prior budget and planning system audit working paper package. | |
| (2) 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. | |
| (3) Identify the sources for the detailed policies, procedures, charts, etc., called for in steps (a) through (d) below. Document the sources of data by listing the data, its source, and any changes since the last system audit. | |
| (a) Contractor’s written budget and planning system policies and procedures. | |
| (b) Organization charts depicting the functional areas responsible for developing and processing budget and planning system related data. | |
| (c) Budget and planning system flowcharts providing a pictorial overview of all manual and computerized processing steps. | |
| (d) Information systems documentation: | |
| (i) Pertinent record layouts of files created and/or used during the processing of budget and planning related transactions. | |
| (ii) Database table definitions. | |
| (iii) Source documents. | |
| (iv) Information on the conversion of documents to computer media. | |
| (v) Subsidiary or master files affected by the system. | |
| (vi) Relevant reports, journals, and ledgers produced in the flow of information to the budget and planning system | |

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| reports. | |
| (4) Review audit lead sheets. | |
| (5) Review the results of any other audits for internal control weaknesses that may impact this audit. | |
| (6) Review and summarize the impact of related CAS noncompliances on the scope of this audit. | |
| (7) Consider the impact of the contractor’s financial condition on the budget and planning system audit. (Refer to prior financial capability risk assessment or audits – Code 176XX.) | |
| <p>d. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team’s understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See “Principal Sources of Fraud Indicators” below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc. • CAM Figure 4-7-3. | |

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| <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p> | |
| <p>e. Obtain from the contractor a schedule of total dollars processed through the budgeting and planning system for the past twelve months (or most recently completed fiscal year) and summarize by total dollars and dollars by Government flexibly priced contracts and fixed price contracts in order to determine the materiality of the budgeting and planning system. Also obtain a listing of proposals for the past twelve months and summarize by contract type and dollar value. Complete the Materiality section of the ICAPS form at W/P A.</p> | |
| <p>f. 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.</p> | |
| <p>g. 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.</p> | |
| <p>h. FAOs that have cognizance of contractors with significant classified contracts should coordinate with the Field Detachment to determine the DCAA office responsible for identifying and reviewing budget and planning information on classified contracts. This coordination should be documented in the working papers. FAOs should also coordinate with the Field Detachment on any significant budget and planning system issues found on classified contracts during prior period reviews.</p> | |
| <p>i. Close coordination is required at FAOs cognizant of a shared services location and the FAOs cognizant of the segments serviced by the shared services. Document the objectives and procedures to be performed at the shared services location and the segment level. Request assist audits, as applicable.</p> | |
| <p>j. Determine the extent and results of the contractor’s self-governance activities, internal and external audits, and coordinated audits related to the budget and planning system.</p> | |

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| <p>(1) Request the contractor provide a list of completed internal and external audits and determine if any are related to the budgeting and planning system.</p> | |
| <p>(2) If applicable, coordinate with the CAC or corporate office auditors to determine if any internal control weaknesses that might impact the budget and planning system were identified in management’s internal control report or the independent auditor’s attestation on management’s assertion included in the annual report filed with the SEC.</p> | |
| <p>(3) In those cases where internal or external audits have been performed, the auditor should follow the guidance contained in CAM 4-1000, Relying Upon the Work of Others. Document your preliminary evaluation and its impact on the scope of this examination. The evaluation of internal audit working papers is documented in detail under Monitoring in Section F-1.</p> | |
| <p>k. Determine the need for technical assistance, if any, and document your consideration on working paper B-3.</p> | |
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| <p>2. Entrance Conference and Preparation</p> | |
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| <p>a. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p> | |
| <p>b. Conduct an entrance conference as outlined in CAM 4-302, with particular emphasis on:</p> | |
| <p>(1) Requesting the contractor to provide, if applicable, a system orientation briefing or a demonstration of the budget and planning system transaction flow, including data input, data processing, data output, and related internal controls. Document under Information and Communications, Section E-1, Step 3.</p> | |
| <p>(2) Determining any changes in the budget and planning process since the last examination.</p> | |
| <p>(3) Discussing the contractor’s risk assessment process. Overall understanding of the contractor’s processes will be documented under Contractor Risk Assessment, Section D-1.</p> | |
| <p>(4) Discussing the contractor’s monitoring process to ensure that established manual and computerized controls are functioning as intended. Document under Monitoring, Section F-1.</p> | |
| <p>(5) Discussing any identified weaknesses which may have been previously reported and related follow-up actions taken.</p> | |

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| 3. Other Preliminary Steps | |
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| a. Determine the degree a computerized system is used in the budget and planning process. | |
| b. Perform a high level cursory assessment to determine if the following exist: | |
| (1) A functional budget and planning organization with defined organizational responsibilities. | |
| (2) A written description of the work flow in the budget and planning process. | |
| (3) Policies and procedures for effectively controlling the budget and planning process. | |
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| 4. Initial Risk Assessment | |
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| Using the information obtained in steps 1, 2, and 3, prepare an initial risk assessment (W/P B) to determine the initial scope of the examination. | |

| C-1 | Control Environment | W/P Reference |
|------------|--|----------------------|
| | Version 5.7, dated June 2012 | |
| | The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of the budget and planning system internal controls. | |
| | 1. Evaluate the most recently completed ICAPS for the Control Environment and Overall Accounting Controls for the rationale behind any moderate or high-risk assessment ratings and determine the impact, if any, on the effectiveness of the budget and planning system internal controls on the control environment. | |
| | 2. If an examination of the control environment has not been recently performed, evaluate all documented prior audit experience with the contractor, including permanent files, relevant audit reports and working papers, suspected irregular conduct (SIC) referrals, and | |

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| discussions with prior auditors. Obtain an understanding of the following factors: | |
| a. Integrity and ethical values. | |
| b. Commitment to competence. | |
| c. Board of directors and/or audit committee participation. | |
| d. Management’s philosophy and operating style. | |
| e. Organizational structure. | |
| f. Assignment of authority and responsibility. | |
| g. Human resource policies and procedures. | |
| h. Financial capability. | |
| 3. Document your overall understanding of the control environment and the impact that it has on the nature and extent of testing of each control objective (W/Ps G, H, I, J and K). | |

| D-1 | Contractor Risk Assessment | W/P Reference |
|--|-----------------------------------|----------------------|
| Version 5.7, dated June 2012 | | |
| The auditor should develop a sufficient understanding of the risk assessment process currently employed by the contractor in terms of its identification, analysis, and management of risks relevant to the preparation of contract cost data. | | |
| 1. Meet with responsible personnel to obtain an overview of the various risk factors considered by management. | | |
| 2. Once the various risk factors are identified, obtain an understanding of how management identifies the risks, estimates the significance of risks, assesses the likelihood of their occurrence, and relates them to contract reporting. | | |
| 3. If applicable, obtain an overview of any plans, programs, or actions management may initiate to address specific risks. Keep in mind that, depending on the nature of specific risks, management may elect to accept a given risk due to costs or other considerations. | | |
| 4. Document your overall understanding of the contractor’s risk assessment practices and the impact that it has on the nature and extent of testing of each control objective (W/Ps G, H, I, J and K). | | |

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| E-1 | Information and Communications | W/P Reference |
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| Version 5.7, dated June 2012 | | |
| <p>Information and communication processes consist of the methods and records established to record, process, summarize, and report contract cost data. The auditor should develop a sufficient understanding of the contractor’s information and communication processes (relevant to contract cost data) to identify significant classes of transactions and how they are initiated, processed, controlled, and reported. A necessary step in understanding the information and communication process is to trace selected transactions through the system (see Step 5 below). This will assist in validating the contractor’s demonstration of the system and identifying key controls requiring subsequent testing.</p> | | |
| <p>1. Since the accounting and information systems are integral components of information and communication processes, review the most recently completed Internal Control Audit Planning Summaries (ICAPS) for the Control Environment and Overall Accounting Controls and the IT Systems General Internal Controls for the rationale behind any moderate or high-risk assessment ratings and determine the potential impact, if any, on the effectiveness of the budget and planning system internal controls on information and communications.</p> | | |
| <p>2. Review relevant permanent files, prior audit working papers, and any prior contractor demonstrations of its budget and planning system information and communication processes.</p> | | |
| <p>3. Determine if the contractor has made changes to the information and communication processes in its budget and planning system since the last demonstration. Evaluate the changes. If no prior systems demonstration was performed, have the contractor provide one. Contractor representatives providing the demonstration should possess a detailed knowledge of the budget and planning system. The demonstration provides the auditor an opportunity to query contractor personnel regarding internal controls and how they are monitored. The auditor should ensure that the demonstration addresses the internal control objectives outlined in CAM 5-500.</p> | | |
| <p>4. The contractor should include appropriate manual and computerized controls in its information processing that check for accuracy, completeness, and proper authorization for the budgeting and planning system. Have the contractor identify and demonstrate controls related to each of the areas listed in a. through e. below. Compare the contractor disclosed controls with the generic access control listing contained in the referenced CAM section and identify any controls not incorporated in the application. Verify the existence and adequacy of the contractor disclosed controls. Discuss any apparent deficiencies with the contractor.</p> | | |

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| a. Access Controls (CAM 5-1406.1) | |
| b. Data Input Controls (CAM 5-1406.2) | |
| c. Processing Controls (CAM 5-1406.3) | |
| d. Error Correction and Submission (CAM 5-1406.4) | |
| e. Output Controls (CAM 5-1406.5) | |
| 5. Once the current budget and planning system information and communication processes are demonstrated by the contractor, selectively trace budgetary or planning data through the budget and planning system starting from the initiation of the transaction (e.g., budget or planning origination document) to validate your understanding of the budget and planning system. By tracing a transaction, the auditor should document the validity and operation of the key controls demonstrated by the contractor in steps 2-4 above (e.g., timeliness of budgets, consistency with strategic and long-range plans, comparison of budgets to actual, management approval of budgets). Discrepancies between your understanding and the contractor’s demonstration should be resolved prior to completing the remainder of this examination. | |
| 6. Document your confirmed understanding of the contractor’s budget and planning system information and communication processes and obtain a written confirmation from the contractor indicating that they agree with this understanding. This documentation will typically take the form of system flowcharts or narrative descriptions and can be prepared by the auditor or consist of documentation prepared by the contractor (see CAM 5-106). Based on your understanding of the contractor’s budget and planning system information and communication processes, document the impact that it will have on the nature and extent of testing of each control objective (W/Ps G, H, I, J and K). | |

| F-1 | Monitoring | W/P Reference |
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| Version 5.7, dated June 2012 | | |
| Monitoring is a process that assesses the quality of internal control performance over time. It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. The auditor should develop a sufficient understanding of the contractor’s ongoing monitoring activities and/or separate evaluations related to the budget and planning system internal controls. | | |
| 1. Determine if ongoing monitoring procedures are incorporated into the normal recurring activities of the contractor’s organization. These | | |

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| procedures should include regular management and supervisory activities. | |
| 2. Where applicable, determine the extent of internal audit involvement in performing monitoring functions through separate evaluations. | |
| 3. Determine and document the extent of monitoring activities being performed by external parties. | |
| 4. Document your overall understanding of the monitoring activity being performed at the contractor’s location and the impact it will have on the nature and extent of testing of each control objective (W/Ps G, H, I, J and K). | |

| G-1 | Functional Organization | W/P Reference |
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| Version 5.7, dated June 2012 | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of the control activities is essential to the assessment of control risk. Budget and planning system primary control objectives, as they relate to U.S. Government contracts, and examples of control activities the contractor may have implemented to achieve the control objectives, are provided in the internal control matrix (see W/P 31). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as high. | | |
| 1. In planning the following audit procedures to understand the contractor’s control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal control components on the nature and extent of testing on this control objective. Internal control components are as follows: | | |
| <ul style="list-style-type: none"> • Control environment | | |
| <ul style="list-style-type: none"> • Contractor risk assessment | | |
| <ul style="list-style-type: none"> • Information and communications | | |
| <ul style="list-style-type: none"> • Monitoring | | |
| 2. The contractor should have a logical budget and planning organization, which includes the formal assignment of duties and responsibilities, a system description, and written policies and procedures. | | |

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| a. Review policies and procedures, organizational charts, job descriptions, and other relevant documentation to identify the major aspects of the planning and budgeting processes and the organizational units that perform them. | |
| b. Review the contractor's placement of critical planning and budgeting activities to determine if they are assigned to logical organizational units. | |
| c. Review the contractor's system description to determine if it adequately describes the flow of work in the budget and planning process. | |
| d. Review the contractor's policies and procedures for key planning and budgeting areas to determine if they describe major planning and budgeting duties in sufficient detail to provide an overall understanding of the operation of these systems. | |
| e. Interview selected employees involved in the budget and planning process to determine if the contractor's system description accurately describes the flow of work in the budget and planning system. | |
| f. During the remainder of this examination, the auditor should be alert for any instances where the contractor's actual practices are inconsistent with established policies and procedures. | |

| H-1 | Strategic and Long-Range Planning | W/P Reference |
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| Version 5.7, dated June 2012 | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of the control activities is essential to the assessment of control risk. Budget and planning system primary control objectives, as they relate to U.S. Government contracts, and examples of control activities the contractor may have implemented to achieve the control objectives, are provided in the internal control matrix (see W/P 31). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as high. | | |
| 1. In planning the following audit procedures to understand the contractor's control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal control components on the nature and extent of testing on this control | | |

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| objective. Internal control components are as follows: | |
| • Control environment | |
| • Contractor risk assessment | |
| • Information and communications | |
| • Monitoring | |
| 2. The contractor should have a strategic and long-range planning process to develop the long-term goals and objectives that impact Government contracts. | |
| a. Review the contractor's policies and procedures to determine if they require the development of strategic and long-range planning information for all areas which impact Government contracts. | |
| b. Review strategic and long-range planning information for the current and prior periods to determine if the contractor establishes strategic objectives in all areas relevant to Government contracts. | |
| c. Review the contractor's policies and procedures to determine if they require adequate documentation of strategic and long-range plans. This documentation is required for management to assess the reasonableness of the underlying assumptions and to facilitate the communication of key information to personnel responsible for preparing related budgets. | |
| d. Selectively evaluate recent strategic and long-range planning documentation to determine if it complies with established documentation requirements. | |
| e. Review the contractor's policies and procedures to determine if they provide for adequate distribution of strategic and long-range planning information to personnel responsible for preparing related budgets. | |
| f. Interview selected budgeting personnel to determine if they have access to relevant strategic and long-range planning information and use the information in preparing related budgets. | |

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| I-1 | Preparation of Budgets | W/P Reference |
| Version 5.7, dated June 2012 | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of the control activities is essential to the assessment of control risk. Budget and Planning system primary control objectives, as they relate to U.S. Government contracts, and examples of control activities the contractor | | |

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| <p>may have implemented to achieve the control objectives, are provided in the internal control matrix (see W/P 31). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as high.</p> | |
| <p>1. In planning the following audit procedures to understand the contractor’s control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal control components on the nature and extent of testing on this control objective. Internal control components are as follows:</p> | |
| <ul style="list-style-type: none"> • Control environment | |
| <ul style="list-style-type: none"> • Contractor risk assessment | |
| <ul style="list-style-type: none"> • Information and communications | |
| <ul style="list-style-type: none"> • Monitoring | |
| <p>2. The contractor should prepare accurate and timely budgets that are approved by an appropriate level of management and distributed to appropriate personnel.</p> | |
| <p>a. Review the contractor's policies and procedures to determine if they require the preparation of budgets in time periods and areas that significantly impact Government contracts.</p> | |
| <p>b. Selectively review recent budget information to determine if they cover all areas outlined in the policies and procedures.</p> | |
| <p>c. Review the contractor's policies and procedures to determine if they provide for adequate control of the budget process to ensure that budgets are prepared in a timely manner.</p> | |
| <p>d. Selectively interview personnel involved in the budget preparation process for the current period to determine if they are aware of specific budget preparation milestones.</p> | |
| <p>e. Selectively review budgets from recent budget periods to determine if they were prepared in a timely manner.</p> | |
| <p>f. For selected budget areas, interview individual managers to determine when they received final, approved budgets for the current budget period, and for several prior budget periods.</p> | |
| <p>g. Review the contractor's policies and procedures to determine if they require consistency between budgetary objectives and strategic and long-range plans.</p> | |
| <p>h. Reconcile significant planning assumptions used in selected</p> | |

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| budgets with strategic planning and long-range plans. | |
| i. Determine that program budgets and contract estimates to complete are an integral part of the contractor's overall budgeting system. | |
| j. Selectively evaluate budget documentation from the most recent budgetary period to determine how recommended management adjustments were made and the adjusted budget was resubmitted for final approval. | |
| k. Review the contractor's policies and procedures to determine if they provide adequate controls to ensure that established budgets are meaningful and attainable. | |
| l. Selectively review budgeted amounts from the most recently completed budgetary period to test the controls implemented by the contractor to ensure that the budgets are meaningful and attainable. | |
| m. Review the contractor's policies and procedures to determine if they require an appropriate level of management review and approval of final budgets. | |
| n. Selectively review budget documents distributed to individual managers to determine if: | |
| (1) There is evidence of management approval. | |
| (2) Management had a reasonable amount of time to review the budgets before approval. | |
| o. Review the contractor's policies and procedures to determine if they provide for controls over the distribution of relevant budget information to individual managers responsible for meeting budgetary objectives and monitoring personnel. | |
| p. Selectively interview individual managers and monitoring personnel to determine if they received information necessary to perform their duties. | |

| J-1 | Budget Performance Monitoring | W/P Reference |
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| Version 5.7, dated June 2012 | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of the control activities is essential to the assessment of control risk. Budget and Planning system primary control objectives, as they relate to U.S. Government contracts, and examples of control activities the contractor | | |

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| <p>may have implemented to achieve the control objectives, are provided in the internal control matrix (see W/P 31). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as high.</p> | |
| <p>1. In planning the following audit procedures to understand the contractor’s control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal control components on the nature and extent of testing on this control objective. Internal control components are as follows:</p> | |
| <ul style="list-style-type: none"> • Control environment | |
| <ul style="list-style-type: none"> • Contractor risk assessment | |
| <ul style="list-style-type: none"> • Information and communications | |
| <ul style="list-style-type: none"> • Monitoring | |
| <p>2. The contractor should have controls to ensure performance against budgets is monitored on a regular basis.</p> | |
| <p>a. Review the contractor's policies and procedures to determine if they provide adequate controls to identify and report potentially significant variances.</p> | |
| <p>b. Evaluate selected variance reports to determine if they:</p> | |
| <p>(1) Comply with established guidelines.</p> | |
| <p>(2) Were distributed to appropriate managers in a timely manner.</p> | |
| <p>c. Review the contractor's policies and procedures to determine if they require analysis of causes of variances and follow-up actions to control variances.</p> | |
| <p>d. Selectively evaluate significant variances from prior and current analysis reports. Interview budget department personnel and individual managers to determine if follow-up actions are being attempted prior to revising budgets, in a manner consistent with established policies and procedures.</p> | |
| <p>e. Verify that significant operating budget variances are promptly reflected in revised forward pricing direct labor and indirect expense rates and in revised contract estimates to complete.</p> | |

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| K-1 | Budget Revisions | W/P Reference |
|--|------------------|---------------|
| Version 5.7, dated June 2012 | | |
| <p>The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of the control activities is essential to the assessment of control risk. Budget and Planning system primary control objectives, as they relate to U.S. Government contracts, and examples of control activities the contractor may have implemented to achieve the control objectives, are provided in the internal control matrix (see W/P 31). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as high.</p> | | |
| <p>1. In planning the following audit procedures to understand the contractor's control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal control components on the nature and extent of testing on this control objective. Internal control components are as follows:</p> | | |
| <ul style="list-style-type: none"> • Control environment | | |
| <ul style="list-style-type: none"> • Contractor risk assessment | | |
| <ul style="list-style-type: none"> • Information and communications | | |
| <ul style="list-style-type: none"> • Monitoring | | |
| <p>2. The contractor should have controls over budget revisions to ensure that all revisions are justified and made in a timely manner.</p> | | |
| <p>a. Review the contractor's policies and procedures to determine if management has established a policy emphasizing follow-up actions before budget revisions are requested.</p> | | |
| <p>b. Review the contractor's policies and procedures and budgeting practices to determine if they provide adequate controls to ensure that budget revisions are requested, evaluated, and approved in accordance with management's policy.</p> | | |
| <p>c. Review the contractor's policies and procedures to determine if they establish specific controls to ensure that budget revisions are justified and made in a timely manner. Determine if controls are also in place to ensure that changes to contract EACs are justified and made timely.</p> | | |
| <p>d. Selectively evaluate budget revision requests to determine if they were requested, evaluated, and approved or rejected in accordance with the criteria defined in the contractor's policies and procedures</p> | | |

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| or otherwise established by management. | |
| e. Selectively evaluate budget revision requests to determine if they were approved and communicated to individual managers in a timely manner. | |

| A-1 | Concluding Steps | W/P Reference |
|--------------------------------------|---|----------------------|
| Version 5.7, dated June 2012 | | |
| 1. Assessment Of Control Risk | | |
| | | |
| | a. Considering all five components of internal control (control environment, contractor risk assessment, information and communications, monitoring, and control activities that relate to control objectives), assess control risk for each of the relevant control objectives (functional organization, strategic and long-range planning, preparation of budgets, budget performance monitoring, and budget revisions). For each of the objectives, summarize the characteristics which support the assessed level of control risk and specifically identify any internal control weaknesses or system deficiencies. | |
| | b. Determine if the budget and planning system is adequate to reasonably assure proper pricing, administration, and settlement of Government contracts in accordance with applicable laws and regulations. | |
| | c. Based on the assessments above, determine the impact on the scope of other audits. | |
| | d. Complete the ICAPS form at W/P A (see CAM 3-305). | |
| | e. Coordinate the results of audit with the supervisor. The supervisor and the FAO manager should review and initial the ICAPS form at W/P A before the exit conference is performed. If it is determined that additional audit steps are needed, any additional planned audit effort should be accomplished as part of this examination or immediately thereafter. Any delays in completion of this audit effort should be documented and approved by management. | |
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| 2. Summary Steps | | |
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| | a. Prepare a draft audit report in accordance with CAM 10-400. | |

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| <p>b. Conduct an exit conference with the contractor in accordance with CAM 4-304.</p> | |
| <p>c. Finalize the audit report incorporating the contractor's response and audit rejoinder.</p> | |
| <p>d. If the contractor has EVMS covered contracts, provide comments in the audit report on whether any findings are likely to impact the contractor's EVMS (10-1204.5b). Discuss findings and recommendations relating to the EVMS with the Contract Administration Office EVMS Monitor prior to issuance of the report. Immediately evaluate the impact of these findings on specific EVMS covered contracts and provide the details in flash EVMS surveillance reports (11-203.5.b).</p> | |
| <p>e. Update the permanent file in accordance with CAM 4-405.b (MAAR #3). Retain a copy of the approved W/P A ICAPS form. After the audit report is issued, update the ICRS database using the information on the approved W/P A ICAPS form and file the approved W/P A ICAPS form in the Electronic Contractor Permanent File (ECPF). (The control risk assessment (Section II) and overall system opinion (Section III) in the ICAPS may not be updated until the system report supporting the change is issued (CAM 3-306a).)</p> | |