

Master Document – Audit Program

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| Activity Code 12030 | Purchasing System Internal Controls |
| Version 7.5, dated November 2009 | |
| B-1 | Planning Considerations |
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| Purpose and Scope | |
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| 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 purchasing system internal controls. | |
| <ul style="list-style-type: none"> • Obtain a sufficient understanding of the contractor’s purchasing system and related internal controls (including 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 purchasing 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 purchasing system internal controls and assessment of control risk, and the adequacy of the system for Government contracts. | |
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| <p>This audit program is limited to the examination of the purchasing system and related internal controls for major contractors, non-major 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 purchasing 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., MMAS, Indirect & ODC, 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 purchasing 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 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 area. In those cases where internal control evaluations have been performed, the auditor should follow 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 systems 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, prior to the beginning of this audit, the auditor should become familiar with guidance contained in the Information System (IS) Auditing Knowledge Base that is found on DCAA’s Intranet. 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 offices to obtain the necessary expertise.</p> |
| <p>The internal control matrix (see Internal Control Matrix – CPSR/Purchasing System Audit), shows 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> <ul style="list-style-type: none"> • CAM 3-300, Internal Control Audit Planning Summary (ICAPS) • CAM 5-100, Obtaining an Understanding of a Contractor’s Internal Controls and Assessing Control Risk • CAM 5-600, Audit of Purchasing System Internal Controls • CAM 5-1300, Participation on Joint Team Reviews |

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| B-1 | Preliminary Steps | W/P Reference |
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| <p>The contracting officer has primary responsibility for reviewing the contractor’s purchasing system and the DCMA CPSR (Contractor Purchasing System Review) team is responsible for performing contractor purchasing system audits. DCAA’s audit objective is the adequacy of the internal controls over the system and the contractor’s monitoring of compliance with its controls. Where DCMA has planned a CPSR, but the scheduled CPSR does not coincide with DCAA’s cycle for evaluating purchasing system internal controls, the FAO should, to the extent possible, adjust its schedule to perform the internal control evaluation as part of a joint DCMA/DCAA CPSR. If a CPSR has not recently been performed and if there is no CPSR scheduled within the normal DCAA cycle for accounting and management system audits (see CAM 5-103), but the FAO believes a purchasing system internal control audit is required based on risk, the FAO should discuss those concerns with the cognizant ACO. Where the ACO agrees with those concerns, the auditor should perform a purchasing system internal control audit (not CPSR). Where agreement is not reached with the ACO, and the FAO believes that the Government is at risk, these concerns should be elevated to the regional office prior to any audit effort. FAOs should document their coordination with the ACO with respect to CPSRs and purchasing system internal control audits, and retain the documentation in the permanent files.</p> | |
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| <p>1. Research and Planning</p> | |
| <p>a. Become familiar with applicable sections of CAM 5-600. Any recent relevant Headquarters guidance (i.e., MRDs, AGMs, and AMGMs) not incorporated in the CAM can be accessed from the Agency-Wide Library available on the DCAA’s intranet home page.</p> | |
| <p>b. Coordinate with the contracting officer:</p> | |
| <p>(1) The DCMA CPSR normally covers many DCAA concerns regarding internal control objectives, but not always all of them. Therefore, it is extremely important that, prior to commencing any audit of the contractor’s purchasing system, the auditor coordinate with the contracting officer (see CAM 5-1302 and FAR Part 44 for discussion of DCAA’s participation on joint CPSR reviews). If a CPSR is planned, the DCAA auditor should be a member of the CPSR team and the scope of the review should be discussed. There should be mutual agreement in the planning stage on what additional audit steps will be necessary to address any DCAA concerns.</p> | |
| <p>(2) In order to enhance coordination and planning of CPSRs, DCMA has committed to meet with the cognizant DCAA office a month before the scheduled CPSR, when appropriate,</p> | |

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| <p>to discuss the scope of the CPSR. This meeting will provide the auditor an opportunity to share the DCAA audit program for purchasing system internal controls with the DCMA purchasing analyst, discuss other relevant audits the FAO has performed (e.g., evaluations of estimating system and material management and accounting system internal controls), and discuss any concerns DCAA may have relative to the contractor’s purchasing system. FAOs should adequately document this coordination in the audit working papers.</p> | |
| <p>(3) During the CPSR, it is not the auditor’s responsibility to review the quality of the CPSR team’s work. However, the auditor should understand the scope of the work being performed in order to assess whether additional steps are required to satisfy any DCAA concerns. The auditor will make maximum use of the work performed and conclusions reached during these reviews in establishing the extent of any separate coverage and audit tests to be undertaken in the area (see Appendix D-300).</p> | |
| <p>c. Perform the following steps using the permanent file:</p> | |
| <p>(1) Review prior purchasing system audit working paper package.</p> | |
| <p>(2) Identify any purchasing system deficiency reports issued (review ICRS database, as applicable). Document the results of (1) and (2) on W/P B-2.</p> | |
| <p>(3) Determine if there are any reported deficiencies in the other internal control system audits that impact the scope of this purchasing system audit (review ICRS database, as applicable). Document on W/P B-2. The results of the Control Environment and Overall Accounting Controls examination, if any, should also be evaluated and documented, in detail, under Control Environment, Section C-1, Step 1, of the W/Ps, and under Information and Communications, Sections E-1, Step 1. The results of the IT Systems General Internal Controls examination, if any, should also be evaluated and documented in detail under Information and Communications, Section E-1, Step 1.</p> | |
| <p>(4) 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.</p> | |
| <p>(a) Contractor’s written purchasing policies and procedures.</p> | |
| <p>(b) Organization charts depicting the functional areas responsible for developing and processing purchasing</p> | |

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| related data. | |
| (c) Purchasing charging and distribution 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 purchasing 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 purchasing system reports. | |
| (5) Review audit lead sheets. | |
| (6) Review other related audits (e.g., 10100-Incurred Cost and 21000-Price Proposal). | |
| <p>d. 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, Sections II.2., IV.4., and IV.5., (IGDH 7600.3, APO March 31, 1993) located at http://www.dodig.mil/PUBS/igdh7600.doc (To access the handbook, copy and paste the web address shown above into the address block in Internet Explorer.) CAM Figure 4-7-3 and CAM 6-305. <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 audit, as well as during the audit, if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p> | |
| e. Obtain from the contractor a schedule of total dollars processed through the purchasing system for the past twelve months (or most recent completed fiscal year) and summarize by total dollars and dollars by Government flexibly priced contracts and fixed price | |

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| <p>contracts in order to determine the materiality of the purchasing system. Complete the Materiality section of the ICAPS form at W/P A (MAAR #1).</p> | |
| <p>f. Discuss the planned examination of the purchasing system internal controls with the administrative contracting officer (ACO) and, if appropriate, other customers to identify, understand, and document any concerns they may have of areas which should be evaluated.</p> | |
| <p>g. 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 purchased costs on classified contracts. This coordination should be documented in the working papers. FAOs should also coordinate with the Field Detachment on any significant purchasing system or other purchasing related system issues.</p> | |
| <p>h. 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>i. Determine the extent and results of the contractor’s self-governance activities, internal and external audits, and coordinated audits, etc., related to the purchasing system.</p> | |
| <p>(1) Request the contractor provide a list of completed internal and external audits and determine if any are related to the purchasing 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 purchasing 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 Contractor Compliance, Training, Policies and Procedures in Section G-1, Step 4.</p> | |
| <p>j. Determine the need for technical assistance, if any, and document your consideration on working paper B-3.</p> | |

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| 2. Entrance Conference and Preparation | |
| a. Prepare a written memorandum to the contractor to arrange for an entrance conference, covering the areas highlighted in CAM 4-302 and any specific data or pertinent information not yet provided. | |
| b. Conduct an entrance conference as outlined in CAM 4-302, with particular emphasis on: | |
| (1) Requesting the contractor to provide, if applicable, a system orientation briefing or a demonstration of the purchasing system transaction flow including data input, data processing, data output, and related internal controls. Document under Information and Communications, Section E-1, Step 3. | |
| (2) Determining any changes in the purchasing processing job stream since the last examination. | |
| (3) Discussing the contractor’s risk assessment process. The overall understanding of the contractor’s process will be documented under Contractor Risk Assessment, Section D-1. | |
| (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. | |
| (5) Discussing any identified weaknesses which may have been previously reported and related follow-up actions taken. | |
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| 3. Other Preliminary Steps | |
| a. Determine the degree a computerized system is used in the purchasing system process. | |
| b. Perform a high level cursory assessment to determine if the following exist: | |
| (1) A functional purchasing organization with defined organizational responsibilities. | |
| (2) A written description of the work flow in the purchasing process. | |
| (3) Policies and procedures for effectively controlling the process. | |
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| 4. Initial Risk Assessment | |
| Using the information obtained in steps 1, 2, and 3, prepare an initial risk assessment to determine the initial scope of the examination (W/P | |

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| B). | |
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| C-1 | Control Environment | W/P Reference |
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| Version 7.5, dated November 2009 | | |
| 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 purchasing 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 purchasing 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 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, K, and L). | | |

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| D-1 | Contractor Risk Assessment | W/P Reference |
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| Version 7.5, dated November 2009 | | |
| 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, K, and L). | | |

| E-1 | Information and Communications | W/P Reference |
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| 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. | | |
| 1. Since the accounting and information systems are integral components of information and communication processes, evaluate the most recently completed 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 purchasing system internal controls on information and | | |

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| communications. | |
| 2. Evaluate relevant permanent files, prior audit working papers, and any prior contractor demonstrations of its purchasing system information and communication processes. | |
| 3. Determine if the contractor has made changes to the information and communication processes in its purchasing 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 purchasing 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 5-600. | |
| 4. The contractor should include appropriate manual and computerized controls in its information processing that check for accuracy, completeness, and proper authorization of purchasing related transactions. 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. | |
| 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 purchasing system information and communication processes are demonstrated by the contractor, trace the processing of a purchase order/subcontract through the purchasing system starting from the initiation of the transaction (e.g., purchase requisition) to validate your understanding of the purchasing 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., purchasing department’s organizational independence, required cost/price analysis performed, adequate source selection evaluation, purchasing file documentation requirements). Discrepancies between your understanding and the contractor’s demonstration should be resolved prior to completing the remainder of this examination. | |

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| <p>6. Document your confirmed understanding of the purchasing 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 purchasing 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, K and L).</p> | |
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| F-1 | Monitoring | W/P Reference |
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| Version 7.5, dated November 2009 | | |
| <p>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 purchasing system internal controls.</p> | | |
| <p>1. Determine if ongoing monitoring procedures are incorporated into the normal recurring activities of the contractor’s organization. These procedures should include regular management and supervisory activities.</p> | | |
| <p>2. Where applicable, determine the extent of internal audit involvement in performing monitoring functions through separate evaluations.</p> | | |
| <p>3. Determine and document the extent of monitoring activities being performed by external parties.</p> | | |
| <p>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 of the control objectives (W/Ps G, H, I, J, K, and L).</p> | | |

| G-1 | Contractor Compliance, Training, Policies, and Procedures | W/P Reference |
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| Version 7.5, dated November 2009 | | |
| <p>The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Purchasing system primary control objectives, as they relate to U.S. Government contracts,</p> | | |

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| <p>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. Determine whether any internal audits or management reviews of the Purchasing Department have been performed. Evaluate the results and note any deficiencies.</p> | |
| <p>3. Determine if any required follow-up actions were taken related to reported findings or recommendations, or why no actions were taken.</p> | |
| <p>4. Adjust the scope of this audit based on the results of the internal audits or management reviews.</p> | |
| <p>5. Obtain the contractor’s purchasing policies and procedures. Verify that they include the items set forth in the audit steps for the following control objectives:</p> | |
| <ul style="list-style-type: none"> • Purchase Orders and Subcontract Clauses | |
| <ul style="list-style-type: none"> • Management of Purchasing | |
| <ul style="list-style-type: none"> • Selecting the Source | |
| <ul style="list-style-type: none"> • Pricing and Negotiation | |
| <ul style="list-style-type: none"> • Subcontract Award and Administration | |
| <p>6. Obtain a list of training provided to purchasing personnel. Evaluate the training materials to verify that the training covers Government purchasing regulations and contractor procedures.</p> | |

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| H-1 | Purchase Orders and Subcontract Clauses | W/P Reference |
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| <p>The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Purchasing 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 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. Verify that the contractor ensures flow down of applicable prime contract terms and conditions in purchase orders and subcontracts (e.g., either the Government or contractor has access to the subcontractor's/intercompany books and records for audit, that billings include only allowable costs [see CAM 6-802.2c.]).</p> | | |

| I-1 | Management of Purchasing | W/P Reference |
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| <p>The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Purchasing 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</p> | | |

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| 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: | |
| • Control Environment | |
| • Contractor Risk Assessment | |
| • Information and Communications | |
| • Monitoring | |
| 2. Determine whether the purchasing department is organizationally independent in order to allow it to operate at maximum effectiveness and make objective decisions. | |
| 3. Verify that the contractor requires the following purchasing file data to be maintained: | |
| a. The purchase order. | |
| b. The purchase requisition. | |
| c. The request for quotation (RFQ). | |
| d. Copies of the vendors' quotes. | |
| e. A bid tabulation sheet that summarizes and compares vendor quotations. | |
| f. Certificates for the rent-free use of Government facilities. | |
| g. Vendor surveys or facilities capabilities reports. | |
| h. Source selection explanation. | |
| i. Price or cost analysis data. | |
| j. Negotiation summary. | |
| k. Basis for selection of contract type. | |
| l. Copies of technical data. | |
| m. Price redetermination or termination data. | |
| n. Correspondence between the purchasing department and the bidders. | |
| o. Evidence of Small and Disadvantaged Business enterprise | |

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| consideration. | |
| p. Information concerning the use of special terms and conditions and approval thereof. | |
| q. Departmental and management approvals, if required. | |
| r. Administrative Contracting Officer notification and consent. | |
| s. Certificate of Current Cost or Pricing Data, if a procurement meets the requirements. | |
| 4. Verify that the contractor follows its make-or-buy program. Ensure that procedures are followed and decisions are documented. | |
| 5. Verify that the contractor has a system of reports and controls that reflect performance and provides the means through which the purchasing department reports its performance to company management. | |

| J-1 | Selecting the Source | W/P Reference |
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| Version 7.5, dated November 2009 | | |
| <p>The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Purchasing 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 | | |

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| 2. Evaluate the following as an indication of the contractor's commitment to promote competition: | |
| a. Reports to top management. | |
| b. Existence and usefulness of the historical records on parts and vendors. | |
| c. Extent of market survey efforts. | |
| 3. Verify the implementation of a current vendor performance rating system. | |
| 4. Selectively test procurement files to ensure compliance with FAR 52.244-5, Competition in Subcontracting. | |

| K-1 | Pricing and Negotiation | W/P Reference |
|---|--------------------------------|----------------------|
| Version 7.5, dated November 2009 | | |
| <p>The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Purchasing 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. Determine if the purchasing file contains appropriate cost/price analysis and technical evaluation (see "Management of Purchasing" – Section I-1).</p> | | |

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| 3. Verify that the contractor has a system to negotiate and take advantage of quantity and prompt payment discounts. Selectively evaluate payments to determine that the system is working. | |
| 4. Verify that guidelines are in place and being followed for determining that cost effective methods are used for processing the high volume of low dollar value orders and calls against blanket orders and open-ended subcontracts. Include consideration of corporate wide purchase agreements, where appropriate. | |

| L-1 | Subcontract Award and Administration | W/P Reference |
|--|---|----------------------|
| Version 7.5, dated November 2009 | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Purchasing 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. Verify that guidelines are in place and being followed for determining the types of subcontracts awarded (MAAR #12) and under what circumstances. | | |
| 3. Determine that the contractor notifies the Government upon award of an auditable subcontract (MAAR #12) or intercompany order (see CAM 6-802.2b). | | |

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| 4. Verify that the contractor obtains annual incurred cost proposals for auditable subcontracts/intercompany orders (MAAR #12), assures the proposals are audited, and incorporates the audit results into billings and proposals to the Government. | |
| 5. Determine that the contractor adequately monitors financial and technical performance. | |

| A-1 | Concluding Steps | W/P Reference |
|---|--|----------------------|
| Version 7.5, dated November 2009 | | |
| 1. Assessment of Control Risk | | |
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| | 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 (contractor compliance, training, policies, and procedures; purchase orders and subcontract clauses; management of purchasing; selecting the source; pricing and negotiation; and subcontract award and administration). 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 purchasing 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) (MAAR #1). | |
| | 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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| <p>a. Prepare a draft audit report in accordance with CAM 10-400.</p> | |
| <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 4-405.1.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> | |