

**Master Document – Audit Program**

<b>Activity Code 12500</b>	<b>Material Management and Accounting System (MMAS)</b>
<b>Version 7.0, dated July 2004</b>	
<b>B-1</b>	<b>Planning Considerations</b>
<b>Purpose and Scope</b>	
The major objectives of this audit are to:	
<ul style="list-style-type: none"> <li>• Evaluate the operational effectiveness of MMAS internal controls and whether the contractor's MMAS adequately conforms to the MMAS standards contained in DFARS 252.242-7004. If the contractor does not have contracts that include DFARS 252.242-7004, this audit can be used to determine if the contractor's MMAS meets CAS and FAR requirements, or other requirements.</li> </ul>	
<ul style="list-style-type: none"> <li>• Obtain a sufficient understanding of the contractor's MMAS and related internal controls (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.</li> </ul>	
<ul style="list-style-type: none"> <li>• Document the understanding of the MMAS internal controls in the working papers and permanent files.</li> </ul>	
<ul style="list-style-type: none"> <li>• Assess control risk as a basis to identify factors relevant to the design of substantive tests.</li> </ul>	
<ul style="list-style-type: none"> <li>• Report on the understanding of the MMAS internal controls, and assessment of control risk, and the adequacy of the system for Government contracts. Express an opinion on the contractor's level of compliance with the MMAS standards identified in DFARS 252.242-7004. Provide the ACO with a reasonable estimate of the cost impact of any identified deficiencies.</li> </ul>	
<p>This audit program is intended for use in evaluating contractor compliance with applicable CAS and FAR requirements, MMAS standards in DFARS 252.242-7004, and other contract requirements. Only those controls directly related to the contractor's MMAS, as defined in DFARS 252.242-7004, will be audited under this assignment. Controls for interrelated audit concerns regarding the adequacy of the contractor's other major systems (i.e., budget and planning, estimating, purchasing, 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 MMAS internal control. 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>	

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<p>Before beginning this examination, the auditor should be alert for internal control evaluations performed by the contractor or its external auditor relating to this audit area. In those cases where internal 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 system or functional area 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 program 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 beginning 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 contact, through their supervisory auditor, their regional office to obtain the necessary expertise.</p>
<p>The internal control matrix (see Internal Control Matrix - Material Management and Accounting System), showing the interrelationships among the control objectives, control activities, and audit procedures used in this audit program, is located in APPS under “Other Audit Guidance.” The control objectives and the audit procedures have been fully integrated into this audit program; therefore, the matrix is not needed unless it is desirable to see the associated control activities and the interrelationships in a matrix format.</p>
<p><b>References</b></p>
<ul style="list-style-type: none"> <li>• CAM 3-300, Internal Control Audit Planning Summary (ICAPS)</li> </ul>
<ul style="list-style-type: none"> <li>• CAM 5-100, Obtaining an Understanding of a Contractor’s Internal Controls and Assessing Control Risk</li> </ul>
<ul style="list-style-type: none"> <li>• CAM 5-700, Audit of Material Management and Accounting System (MMAS) Internal Controls – Standards 1 Through 10</li> </ul>

<b>B-1</b>	<b>Preliminary Steps</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
<b>1.</b>	<b>Research and Planning</b>	

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<p>a. Become familiar with applicable sections of CAM 5-700 and any recent relevant Headquarters guidance not incorporated in the CAM located on the DCAA’s intranet under DCAA Audit/Administrative Guidance.</p>	
<p>b. Perform the following steps using the permanent file:</p>	
<p>(1) Review prior MMAS audit working paper package.</p>	
<p>(2) Identify any MMAS 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 MMAS 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 working papers, and under Information and Communications, Section 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 MMAS policies and procedures.</p>	
<p>(b) Organization charts depicting the functional areas responsible for developing and processing MMAS data.</p>	
<p>(c) Material charging and distribution system flowcharts providing a pictorial overview of all manual and computerized processing steps.</p>	
<p>(d) Information systems documentation:</p>	
<p>(i) Pertinent record layouts of files created and/or used during the processing of material related transactions.</p>	
<p>(ii) Database table definitions.</p>	
<p>(iii) Source documents.</p>	
<p>(iv) Information on the conversion of documents to computer media.</p>	

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(v) Subsidiary or master files affected by the system.	
(vi) Relevant reports, journals, and ledgers produced in the flow of information to the MMAS reports.	
(5) Review audit lead sheets.	
(6) Review other related audits. Examples are as follows:	
(a) Prior examinations of MAAR 13 - purchase existence and consumption (10320).	
(b) Prior examinations of CPSR/purchasing system (12030).	
(c) Prior examinations of earned value management (EVM) effort (17750, 17760, 17770).	
(d) Prior examinations of CPRs, C/SSRs and CFSRs (17850).	
(e) The impact of suspected irregular conduct (SIC) and CAS noncompliances, if applicable.	
<p>c. 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"> <li>• Handbook on Fraud Indicators for Contract Auditors, Sections II.2 and III (IGDH 7600.3, APO March 31, 1993) located at <a href="http://www.dodig.osd.mil/PUBS/index.html">www.dodig.osd.mil/PUBS/index.html</a>, and</li> <li>• CAM 6-305 and CAM Figure 4-7-3.</li> </ul> <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>	
d. Obtain from the contractor a schedule of total dollars representing material costs 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 contracts in order to determine the materiality of the MMAS. Update ICAPs as applicable.	
e. Discuss the planned examination of the MMAS 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.	
f. FAOs that have cognizance of contractors with significant	

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classified contracts should coordinate with the Field Detachment to determine the DCAA office responsible for identifying and reviewing material costs on classified contracts. This coordination should be documented in the working papers. FAOs should also coordinate with the Field Detachment on any significant MMAS or other material related system issues.	
g. 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.	
h. Determine the extent and results of the contractor’s self-governance activities, internal and external audits, and coordinated audits, etc., related to the MMAS.	
(1) Request the contractor to provide a list of completed internal and external audits and determine if any are related to the MMAS.	
(2) If applicable, coordinate with the CAC or corporate office auditors to determine if any internal control weaknesses that might impact the MMAS 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.	
(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 Internal Audits in Section P-1.	
i. Determine the need for technical assistance, if any, and document your consideration on working paper B-3.	
<b>2. Entrance Conference and Preparation</b>	
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 MMAS transaction flow including data input, data processing, data	

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output, and related internal controls. Document under Information and Communications, Section E-1.	
(2) Determining any changes in the material processing job stream since the last examination.	
(3) Discussing the contractor's risk assessment process. The overall understanding of the contractor's processes 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.	
<b>3. Other Preliminary Steps</b>	
a. Determine the degree a computerized system is used in the material requirement, acquisition, and usage process.	
b. Perform a high level cursory assessment to determine if the following exist:	
(1) A functional MMAS organization with defined organizational responsibilities.	
(2) A written description of the work flow in the material process.	
(3) Policies and procedures for effectively controlling the process.	
<b>4. Initial Risk Assessment</b>	
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 B).	

<b>C-1</b>	<b>Control Environment</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
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 MMAS internal controls.		

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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 MMAS 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.	
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 through P).	

<b>D-1</b>	<b>Contractor Risk Assessment</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
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		

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accept a given risk due to costs or other consideration.	
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 through P).	

<b>E-1</b>	<b>Information and Communications</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
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.		
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 MMAS internal controls on information and communications.		
2. Evaluate relevant permanent files, prior audit working papers, and any prior contractor demonstrations of its MMAS information and communication processes.		
3. Determine if the contractor has made changes to the information and communication processes in its MMAS since the last examination. Evaluate the changes.		
4. The contractor should include appropriate manual and computerized controls in its information processing that check for accuracy, completeness, and proper authorization of material 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 to the MMAS applications and related transactions for originating, authorizing, collecting, preparing, and		

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approving input transactions (CAM 5-1406.2).	
c. Processing controls which ensure all authorized transactions are processed accurately and properly (CAM 5-1406.3).	
d. Error correction and resubmission of rejected data (CAM 5-1406.4).	
e. Output Controls (CAM 5-1406.5).	
5. Selectively trace material transactions through the MMAS to validate your understanding of the information and communication processes in the MMAS. Any discrepancies between your understanding and the controls identified should be noted and resolved prior to completing the remainder of this examination.	
6. Document your confirmed understanding of the MMAS 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 MMAS information and communication processes, document the impact on the nature and extent of testing of each control objective (W/Ps G through P).	

<b>F-1</b>	<b>Monitoring</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
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 MMAS internal controls.		
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.		
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 determine the impact it will		

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have on the nature and extent of testing of each control objective (W/Ps G through P).	
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G-1	System Description	W/P Reference
<b>Version 7.0, dated July 2004</b>		
<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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). 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 the control objectives. Internal control components are as follows:</p>		
<ul style="list-style-type: none"> <li>• Control environment</li> </ul>		
<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>		
<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>		
<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>		
<p>2. MMAS Standard 1 requires the contractor to provide an adequate system description, including policies, procedures, and operating instructions compliant with FAR/CAS criteria as interpreted by this guidance for all elements of affected cost. Perform the following steps to determine contractor compliance:</p>		
<p>a. Obtain the contractor's self-assessment of its system description; including written policies, procedures, and operating instructions for its MMAS(s). Document deficiencies found by the contractor and the corrective actions taken/anticipated.</p>		
<p>b. Document in the working papers your evaluation of the system description, including policies, procedures, and operating</p>		

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instructions, including:	
(1) Whether they provide sufficient information to allow one to obtain a thorough understanding of the way the system is intended to operate.	
(2) Potential noncompliances with the standards and your evaluation of the contractor's initial response to these potential noncompliances.	
(3) Your conclusions on the adequacy of the contractor's policies and procedures, system descriptions, and action plan(s) for keeping them current.	
c. When the system description is considered adequate, determine and document any additional audit steps necessary to express an audit opinion (see CAM 4-1000 - Relying Upon the Work of Others).	

<b>H-1</b>	<b>Material Requirements</b>	<b>W/P Reference</b>
	<b>Version 7.0, dated July 2004</b>	
	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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). 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:	
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	<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>	
	<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>	

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<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>	
<p>2. MMAS Standard 2 requires that the costs of purchased and fabricated material charged or allocated to a contract are based on valid time phased requirements as impacted by minimum/economic order quantity restrictions. The primary objective is to ensure sufficient controls are established and being used to assure material costs are valid and time-phased. Accurate bills of material (BOM) and master production schedules (MPS) should assure that the contractor's material costs are both valid (a valid requirement for the material) and reasonably time-phased (billed within a reasonable time of the actual need date). Perform the following steps to determine contractor compliance:</p>	
<p><b>a. BOM Accuracy</b></p>	
<p>(1) Identify the specific procedures for determining material requirements and how the procedures and related internal controls ensure that materials ordered and billed to contracts are valid.</p> <p>Coordinate closely with the Government technical representative and document who will perform individual steps.</p>	
<p>(2) Evaluate the contractor's selection of appropriate production contract(s) from its self assessment for detailed analysis that procedures are being followed and are working.</p>	
<p>(3) Evaluate the contractor's calculation of accuracy of selected contract BOM(s) and document whether the contractor meets the goal of 98% accuracy.</p>	
<p>(4) Determine whether the contractor's evaluation of the individual processes of developing and revising BOMs provides adequate internal control and reasonable assurances that billed materials are needed to fulfill contract requirements and that all required materials have been accurately identified.</p>	
<p>(5) Evaluate the contractor's reasons for any errors found in its BOMs which the contractor considers excludable in the measurement of accuracy and/or does not result in harm to the system of controls or to the Government.</p>	
<p>(6) Evaluate the contractor's identification of those conditions considered deficient and resulting in increased costs to the Government, and its calculation of the cost impact.</p>	
<p>(7) Determine that appropriate adjustments were made to ensure billings are properly adjusted to exclude invalid requirements.</p>	

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<b>b. MPS Accuracy</b>	
<p>(1) Determine that the method used by the contractor ensures that materials will not be received and charged/billed to contracts earlier than is reasonably justified.</p> <p>Coordinate closely with the Government technical representative and document who will perform individual steps.</p>	
<p>(2) Determine the adequacy of the contractor's self-assessment of the procedures and internal controls governing the establishment and revision of available capacity and manufacturing lead and process times.</p>	
<p>(3) Determine whether the contractor's scheduling (or related) procedures ensure development of a required material delivery date as close to the manufacturing/assembly need date as possible given the contractor's internal and external market forces.</p>	
<p>(4) Analyze the contractor's assessment of information used in the scheduling process compared to what is really being incurred in the departments/shops in the following areas:</p>	
<p>(a) Availability of actual capacity.</p>	
<p>(b) Manufacturing/assembly process times including individual processes, queue times, kitting/staging, etc.</p>	
<p>(c) Dock to stock which would include time for receiving, inspection, testing, handling, etc.</p>	
<p>(d) Time in inventory. Analyze the contractor's methodology and justification for the period of time between the placement of materials in stores (a holding area) and its actual manufacturing/assembly need date.</p>	
<p>(e) Expand to other areas you deem necessary to ensure adequate time phasing.</p>	
<p>(f) Determine whether the contractor's analysis is sufficient to (i) ensure planned lead and process times are consistent with what is being experienced in the responsible department/shop and, (ii) provide assurances that material charges are reasonably time-phased.</p>	
<p>(5) Evaluate the contractor's justification for costs/billings based on minimum/economic order quantities or other conditions warranting early receipt of materials.</p>	

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(6) Evaluate the reasonableness of the contractor's analysis of controls over acceptance of early deliveries of materials from vendors.	
(a) Evaluate the contractor's selection and analysis of parts for comparing planned receipt dates (due dates which are based on scheduled lead times) to actual receipt dates, and identify patterns of "early receipt and billing."	
(b) Evaluate the contractor's justification for early delivery/receipt.	
(7) Evaluate the contractor's calculation of MPS accuracy and document whether the contractor meets the goal of 95% accuracy.	
(8) Evaluate the contractor's identification of those conditions considered deficient and resulting in increased costs to the Government, and its calculation of the cost impact.	
(9) Determine that appropriate adjustments were made to ensure billings are properly adjusted to exclude unreasonably time-phased materials.	
<b>c. Justification for Exceptions</b>	
(1) Evaluate the contractor's policies and procedures to determine if they require the identification, investigation, and appropriate corrective action for materials purchased and charged to contracts in excess of valid time-phased requirements.	
(2) Selectively evaluate materials purchased and charged to Government contracts in excess of valid time-phased requirements to determine if they are reasonable or that appropriate adjustments are made to contract billings. The following steps may provide indications of such charges:	
(a) Evaluate the contractor's analysis of the internal controls and procedures related to the netting process; also, identify materials/parts for which no requirements exist or for which quantities differ from identified requirements.	
(b) Evaluate the contractor's analysis of inventory status data that identifies parts having significant positive and negative status that may indicate invalid requirements or unreasonably time phased materials and problems in the system for determining requirements.	
(c) Evaluate (i) the methodologies used to charge material/parts to contracts (it may differ by class of material), (ii) the cost basis for the charges, and (iii) the	

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level(s) at which material/part charges are identified/recorded to gain an understanding as to how requirements are charged to contracts. Identify the data files that contain the material/part charges to the contract to identify potential problems relative to reconciliation between contract costs and requirements.	
(d) Evaluate the contractor’s analysis of parts that determine if there appears to be an unusually long period between the time materials were received and the time they were used in the production process (months on hand). Document your agreement/disagreement with the contractor's reasons for materials sitting in inventory for long periods of time, including the basis of your decision.	
(e) Evaluate the contractor's analysis of inventory turnover.	
(f) Document your conclusions relative to the contractor's follow-up and treatment of apparent deficiencies found during the above steps.	
(3) If the contractor identified deficiencies in its internal controls resulting in a noncompliance with the standard, evaluate the contractor's determination of the potential harm to the Government and its analysis to determine the cause of the deficiencies.	

<b>I-1</b>	<b>System Monitoring</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). 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		

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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"> <li>• Control environment</li> </ul>	
<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>	
<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>	
<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>	
2. MMAS Standard 3 requires that the contractor's system provide a mechanism to identify, report, and resolve system control weaknesses and manual overrides. As with standards 1 and 4, the requirements of this standard are an integral part of the evaluation of all standards. Perform the following steps to determine contractor compliance:	
a. Determine the sufficiency of the contractor's analysis of MMAS related exception reports and reports that track manufacturing process performance pertaining to the contractor's material systems.	
b. Evaluate the contractor's review of policies, procedures, and operating instructions.	
c. Evaluate how the contractor selected significant reports and determined that exceptions are adequately identified, reported, and resolved consistent with procedures (testing of the system).	
d. Evaluate the analysis regarding the adequacy of the system to timely identify exceptions such as excess and residual materials, no cost transfers, lost/found parts, etc.	
(1) The analysis should include a determination regarding the reasonableness of the point when excess and/or residual material is made available for transfer (e.g., product delivery, shop order completion, testing completion, etc.).	
(2) The contractor's system should provide for identification and the proper disposition of lost and found parts. Evaluate the contractor's analysis to determine how lost and found parts are recorded and re-entered into the system.	
e. Where the contractor's analysis identified reports (systems) with a significant number of exceptions, evaluate the contractor's conclusions and/or corrective action plans.	
f. Evaluate the analysis regarding who has access to and authority to enter data into the system, resolve exceptions, and manually override the system logic.	
g. Determine whether the analysis evaluated whether edit check controls within the system include checks to preclude entry of	

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erroneous data.	
h. Evaluate whether the analysis determined that there are sufficient controls in place that are being used to prevent the ordering and billing of parts over and above contract requirements without sufficient justification.	
i. Determine whether the analysis evaluated for sufficient controls to identify and follow up on costs incurred on spares contracts after parts are delivered.	
j. Evaluate how the contractor evaluated for the possibility of major areas of risk that are not subject to either exception reporting or edit checks.	
k. Evaluate the reasonableness of the contractor's identification of those conditions considered deficient and result in increased costs to the Government, and its calculation of the cost impact.	
l. Determine that appropriate adjustments were made to ensure billings are properly adjusted to account for identified deficiencies causing overbillings.	
m. When the policies, procedures and operating instruction for system monitoring are adequate, document any additional audit steps necessary to express an audit opinion (see CAM 4-1000 - Relying Upon the Work of Others).	

<b>J-1</b>	<b>Audit Trail</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
<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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). 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</p>		

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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"> <li>• Control environment</li> </ul>	
<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>	
<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>	
<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>	
2. MMAS Standard 4 requires the contractor to provide audit trails and maintain records necessary to evaluate system logic and to verify through transaction testing that the system is operating as desired. Perform the following steps to determine contractor compliance:	
a. For each of the 10 standards determine the adequacy of the audit trail for allowing the evaluation of transactions/contractor actions of the system(s) under examination.	
b. Determine whether the contractor provided sufficient evidence through transaction testing to show its system is operating as desired.	

<b>K-1</b>	<b>Physical Inventories</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). 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"> <li>• Control environment</li> </ul>		

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<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>	
<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>	
<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>	
<p>2. MMAS Standard 5 provides that a 95 percent inventory record accuracy is desirable in order to assure that recorded inventory quantities reconcile to the physical inventory. Perform the following steps to determine contractor compliance:</p>	
<p>a. Evaluate the contractor's policies and procedures for the receipt and inspection of material to determine if they are adequate to ensure the following:</p>	
<p>(1) All material received is accounted for.</p>	
<p>(2) Only material meeting agreed-to quantity and quality specifications are accepted.</p>	
<p>(3) Material returns are properly controlled and accounted for.</p>	
<p>(4) All material received is transferred to inventory or otherwise accounted for.</p>	
<p>b. Physically observe the contractor's actual material receipt and storage practices to ensure that they are consistent with established policies and procedures.</p>	
<p>c. Evaluate the contractor's policies and procedures for issuing material to the floor to determine if they are adequate to ensure that all issued and returned material is accounted for.</p>	
<p>d. Physically observe the contractor's actual material issuance practices to determine if they are consistent with established policies and procedures.</p>	
<p>e. Evaluate the contractor's procedures and internal controls for verifying the quantities of physical inventories. Physical inventories include company owned stock/asset inventory plus contract project inventory. Procedures and internal controls include reconciling the quantities recorded in the perpetual MMAS inventory books and records to the physical count of parts stored in warehouses or other inventory locations. Coordinate this portion of your audit closely with the Government property specialists as many of the normal reviews performed by them may be of use in your evaluation.</p>	
<p>f. Evaluate the contractor's procedures for validating the overall inventory recorded in the MMAS perpetual inventory books of record, i.e., the value of inventory maintained in the MMAS inventory books of record as represented by quantity multiplied by unit prices. Reconcile inventory recorded in perpetual MMAS</p>	

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inventory books of record to amounts recorded/charged in applicable cost or other appropriate controlling account ledger(s).	
g. Evaluate the contractor's identification of material classification whereby count tolerances are determined by the criticality or materiality of the materials.	
h. Evaluate the contractor's review and justification for established tolerances.	
i. Evaluate the contractor's method of determining inventory record accuracy.	
j. Determine the reasonableness of the contractor's cycle (periodic ongoing) counts of inventory with emphasis on:	
(1) Recent results of cycle counts	
(2) Cycle count procedures	
(3) The basis for count intervals	
k. Evaluate the contractor's adjustments for differences between book inventory and physical count to ascertain that the contractor has effective internal controls for controlling losses and overages.	
l. Determine the appropriateness of how the contractor handled the effects of physical losses/overages when they occurred, including the contractor's basis for determining whether or not the errors resulted in harm to the Government.	
m. Evaluate the contractor's methodology for costing adjustments to booked inventory. Determine whether the method is consistent, equitable, and unbiased.	
n. Evaluate the contractor's calculation of inventory record accuracy.	
o. Evaluate the contractor's identification of those conditions considered deficient and resulting in increased costs to the Government, and its calculation of the cost impact.	
p. Determine that appropriate adjustments were made to ensure billings are properly adjusted to account for identified deficiencies causing overbillings.	
q. When the policies, procedures, and operating instructions for inventory record accuracy are adequate, determine and document any additional audit steps necessary to express an audit opinion (see CAM 4-1000 - Relying Upon the Work of Others).	

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L-1	Material Transfers	W/P Reference
<b>Version 7.0, dated July 2004</b>		
<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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). 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"> <li>• Control environment</li> </ul>		
<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>		
<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>		
<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>		
<p>2. MMAS Standard 6 provides that the contractor's policies and procedures should include detailed descriptions of circumstances which will result in manual or system generated transfers of parts. Determine whether the contractor adequately describes circumstances which will result in manual or system generated transfers of parts.</p>		

M-1	Material Costing	W/P Reference
<b>Version 7.0, dated July 2004</b>		
<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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). The</p>		

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<p>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"> <li>• Control environment</li> </ul>	
<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>	
<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>	
<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>	
<p>2. MMAS Standard 7 provides that the contractor should maintain a consistent, equitable, and unbiased logic for costing material transactions. Perform the following audit steps to verify contractor compliance:</p>	
<p>a. Evaluate the assessment of the contractor's procedures and controls for initial charging of material to ensure the charges are consistent, equitable, and unbiased and compliant with CAS 411. NOTE: If a CAS 411 compliance audit has been recently performed, the auditor should incorporate the results into this audit and no further effort should be required.</p>	
<p>b. Evaluate the contractor's policies and procedures to determine if they clearly identify the costing policies for sensitive material transactions.</p>	
<p>c. Selectively evaluate sensitive material transactions to determine if they were costed in accordance with established policies and procedures. Several computer software packages are available to assist in this task. These include MS-Excel, MS-Access, DATATRAK, SAS, etc. Contact your Regional IT representative (RSA) if assistance in this area is necessary</p>	
<p>d. For cost transfers:</p>	
<p>(1) Evaluate the assessment of the company’s description of the material transfer system and the procedures and internal controls governing transfers.</p>	
<p>(2) Evaluate the contractor's analysis of its detailed transfer listings. Evaluate a sample (sufficient size to provide evidence</p>	

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needed) of transfers in order to determine the cause and reasonableness of the transfers. Evaluate the rationale for continuing high levels of transfers or plans to correct identified deficiencies.	
(3) Evaluate the contractor's assessment of transfer costing methodology.	
(a) Determine whether sufficient tests were performed to determine if and when costs are transferred with the physical movement of parts.	
(b) Determine whether sufficient tests were performed to ensure the contractor transfers all costs associated with the parts. For example, fabricated parts should be transferred at a value which includes material, labor, and related indirect costs.	
(c) Determine whether sufficient tests were performed to ensure the contractor's practices are consistent with its stated costing methodology for initial charges and transfer charges to contracts.	
(d) Determine whether sufficient tests were performed to ensure costs are transferred at standard or actual costs using one of the CAS 411.50(b) inventory valuation methods.	
(e) If costs are not always transferred at the same time as the part, determine the reasonableness of the contractor's analysis of controls that are in place to ensure the costs are transferred within the same billing cycle or within a reasonable time thereafter.	
(f) Determine whether sufficient tests were performed to ensure cost transfers are consistent, equitable, and unbiased.	
(4) In order to consider audit leads of possible internal control weaknesses, evaluate the contractor's sample (sufficient size to provide evidence needed) of transfer activity used to analyze trends.	
e. For Loan/Paybacks:	
(1) Evaluate the analysis of circumstances that result in a loan/payback, including its basis for determining the reasonableness and equitableness of these transactions.	
(2) Evaluate the analysis of the loan/payback aging report to determine whether the system identifies the borrowing contract and the date the parts were borrowed.	

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(3) Evaluate the tests that provide sufficient evidence that loans do not remain outstanding for unreasonable periods of time.	
(4) Evaluate the tests that provide sufficient evidence that procedures and controls are in place to correct any overbillings due to loan/payback.	
(5) Evaluate the tests that provide sufficient evidence that the costs of the replacement parts are charged to the borrowing contract.	
f. Evaluate the identification of those conditions considered deficient and resulting in increased costs to the Government, and its calculation of the cost impact.	
g. Evaluate the determination that appropriate adjustments were made to ensure billings are properly adjusted to account for identified deficiencies causing overbillings.	
h. When the policies, procedures and operating instructions for inventory record accuracy are adequate, determine and document any additional audit steps necessary to express an audit opinion (see CAM 4-1000 - Relying Upon the Work of Others).	

N-1	Inventory Allocations	W/P Reference
<b>Version 7.0, dated July 2004</b>		
<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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). 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"> <li>• Control environment</li> </ul>		

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<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>	
<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>	
<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>	
<p>2. MMAS Standard 8 requires that the contractor's system handle allocations of common inventory in such a manner as to preclude improper allocation and costing of allocations. Perform the following steps to determine contractor compliance:</p>	
<p>a. Evaluate the contractor's analysis to determine the magnitude of contractor cost allocations from common inventories. If allocations are immaterial, further effort may not be required.</p>	
<p>b. Evaluate the contractor's analysis of its procedures and internal controls governing the allocation process.</p>	
<p>c. Evaluate the contractor's definition(s) and determine that the classifications are appropriate for the types of materials costed as common inventory. Evaluate the contractor's analysis of different classes of materials comprising the common inventory costs that are allocated to contracts. Determine that common materials that have been allocated benefit the contracts charged.</p>	
<p>d. Determine whether the contractor's analysis provides sufficient evidence that allocation methods are compliant with valid time-phased requirements. Allocations should not result in allocations of material costs for which there are no contract requirements or are too far in advance of required production dates without sufficient justification, e.g., availability of quantity discounts, economic order quantities, known or expected vendor problems, etc.</p>	
<p>e. Assess the contractor's analysis of the common inventory being allocated to determine that the pool of common inventory allocated is accurate (refer to MMAS Standard 5).</p>	
<p>f. Evaluate the contractor's analysis of the frequency of the billing cycle, and evaluate tests that assure billings show common inventory costs were properly calculated (computerized or manually) and costed on a current basis.</p>	
<p>g. Where common inventory is reallocated on a periodic basis, evaluate the contractor's analysis performed to determine the reasonableness of the basis and method for reallocation. Evaluate the contractor's evidence that shows the total adjustments (debits/credits) of reallocations are accurately reflected in billings.</p>	
<p>h. Evaluate the contractor's identification of those conditions considered deficient. Determine that any adverse cost impact is calculated and that adjustments are made to ensure billings are</p>	

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made to account for identified deficiencies.	
i. When the policies, procedures and operating instructions for inventory allocations are adequate, determine and document any additional audit steps necessary to express an audit opinion (see CAM 4-1000 - Relying Upon the Work of Others).	

<b>O-1</b>	<b>Commingled Inventory</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
<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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). 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"> <li>• Control environment</li> </ul>		
<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>		
<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>		
<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>		
<p>2. Where a contractor has commingled inventory, MMAS Standard 9 requires adequate controls to ensure material charges or allocations do not compromise the first eight standards. Perform the following steps to determine contractor compliance:</p>		
<p>a. Evaluate the contractor's analysis of the procedures and internal controls related to commingled inventory.</p>		
<p>b. Determine whether the contractor's internal controls over charging and/or allocation of commingled inventory are sufficient to ensure</p>		

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the requirements of standards 1 through 8 are met for this portion of the contractor's material inventory.	
c. When the system description is considered adequate, determine and document any additional audit steps necessary to express an audit opinion (see CAM 4-1000 - Relying Upon the Work of Others).	

<b>P-1</b>	<b>Internal Audits</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
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. MMAS primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Material Management and Accounting System (MMAS)). 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"> <li>• Control environment</li> </ul>		
<ul style="list-style-type: none"> <li>• Contractor risk assessment</li> </ul>		
<ul style="list-style-type: none"> <li>• Information and communications</li> </ul>		
<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>		
2. MMAS Standard 10 requires that the system be subjected to periodic internal audits to ensure compliance with established policies and procedures. Perform the following audit steps to determine the contractor’s compliance:		
a. Determine whether the MMAS is subject to periodic internal audits.		
b. Evaluate the contractor's internal audit plan and schedule of		

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completed audits.	
c. Consider audits performed by functional units that meet the objective of Standard 10.	
d. If the contractor contends that such reviews have been performed, but is unwilling to make them available to DCAA in any form, the auditor may be unable to determine if the contractor has complied with the standard. The auditor must be satisfied that the system is subjected to periodic internal audit.	
e. Document the basis of your conclusion that the system is subjected to periodic internal audit.	
f. When the contractor’s policies, procedures and operating instructions for internal audits are adequate, determine and document any additional audit steps necessary to express an audit opinion (see CAM 4-1000 - Relying Upon the Work of Others).	

<b>A-1</b>	<b>Concluding Steps</b>	<b>W/P Reference</b>
<b>Version 7.0, dated July 2004</b>		
<b>1. Assessment Of Control Risk</b>		
	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 (system description, material requirements, system monitoring, audit trail, physical inventories, material transfers, material costing, inventory allocations, commingled inventories, and internal audits). 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 material management and accounting 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. Update the ICAPS (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 before the exit conference is performed. If it is determined that additional	

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<p>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.</p>	
<p><b>2. Summary Steps</b></p>	
<p>a. Prepare an overall audit summary which describes in sufficient detail the audit results/findings. Quantify the estimated cost impact (the effect of the deficiency) to the Government, normally a percentage withhold to be applied to contract billings. If you are unable to quantify the impact of the deficiency explain in the working paper summary and refer to FAR 32.503-6.</p>	
<p>b. Discuss the findings and recommendations with the contracting officer to ensure he/she understands the findings, is aware of the underlying evidential data, and determine steps that will need to be taken by the Government--especially in terms of a recommended withhold.</p> <p>The ACO should be invited to the exit conference.</p>	
<p>c. Prepare a draft audit report in accordance with CAM 10-400.</p>	
<p>d. Conduct an exit conference with the contractor in accordance with CAM 4-304.</p>	
<p>e. Finalize the audit report incorporating the contractor's response and audit rejoinder.</p>	
<p>f. 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 (11-209.2.e).</p>	
<p>g. Update the permanent file in accordance with CAM 4-405.1.b (MAAR #3).</p>	
<p><b>3. Closing Actions</b></p>	
<p>Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:</p>	

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

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