

Master Document – Audit Program

Activity Code 17750	EVMS, System Compliance or Surveillance
Version 1.3, dated January 2012	
B-1	Planning Considerations
Purpose	
<p>DCMA is the executive agent for implementation of EVM on DoD contracts. For compliance/validation reviews the DCMA EVM Center will coordinate and complete the review process. For surveillance reviews, DCMA normally appoints a member of the Contract Management Office (CMO) as the surveillance monitor. The CMO monitor is assigned the overall responsibility for coordinating and accomplishing the EVMS surveillance. The purpose of this audit program is to facilitate DCAA's participation in EVMS activity in support of DCMA's compliance and surveillance reviews. This program provides procedures to test contractor or subcontractors compliance with certain EVMS guidelines. The term contractor within this audit programs refers to both the prime contractor and subcontractor, however it relates to your audit.</p>	
<p><u>EVMS Guidelines Under DCAA Cognizance</u> - Based on coordination with the DCMA EVM Center, DCAA audits will be limited to the following guidelines:</p> <ul style="list-style-type: none"> • Guideline 13 – Establish overhead budgets • Guideline 16 – Record direct costs • Guideline 17 – No allocation of single control account into two or more work breakdown structure (WBS) elements • Guideline 18 – No allocation of single control account into two or more organizational breakdown structure (OBS) elements • Guideline 19 – Record and allocate indirect costs • Guideline 20 – Identify unit or lot costs • Guideline 21 – Material accounting (pertaining to incurred and budgeted costs; earned value attributes reviewed by DCMA) • Guideline 30 – Control retroactive changes (pertaining to incurred and budgeted costs; earned value attributes reviewed by DCMA) 	
<p>This audit program is intended for use in performing audits in support of all earned value management system (EVMS) reviews (compliance/validation, standard surveillance post acceptance and follow-up audits). The audit program should be tailored accordingly based on the scope and nature of the actual EVMS audit objectives.</p>	
<p>Compliance/Validation – The DCMA EVM Center will provide a written request for audit support for compliance reviews which will include the 8 EVMS Guidelines under DCAA cognizance. Compliance/validation reviews will be conducted by the EVM Center for initial validation, expansion of EVMS to other contractor divisions or post acceptance reviews for cause. Prior to starting the compliance/validation review, the</p>	

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auditor will verify that the contractor has a management approved EVMS and that sufficient data is available to adequately test the system.

Standard Surveillance – The CMO will provide a written request to DCAA for testing contractor compliance with certain EVMS guidelines based on their continuous surveillance and risk assessment. They may request either a detailed evaluation encompassing the 8 EVMS Guidelines assigned to DCAA or limit the request to the guidelines related to the specific risk factor identified. The auditor will select the contracts for review based on the entire universe of EVMS contracts taking into consideration DCMA's assessment of at-risk contracts. Surveillance by the CMO and DCAA is performed to ensure that the contractor's system continues to comply with the EVMS guidelines and produces valid and timely data. Surveillance is also performed to ensure that any proposed or actual changes to the EVMS comply with the guidelines and are reflected in the contractor's system description. Surveillance includes review of continued compliance with the EVM guidelines, as well as, verifying, tracing, and evaluating the information contained in the reports submitted to DoD procuring components.

Post Acceptance Reviews – The DCMA EVM Center will provide a written request for audit support for post acceptance reviews. After the initial acceptance of a contractor's EVMS, no further review for the system acceptance will be conducted unless there is a specified need determined by the Government. If a specific need is determined, the Government conducts a post acceptance review for cause. The scope and conduct of the post acceptance will focus on the systems processes and specific EVMS guideline affected by the problem identified by the Government.

Follow-Up Reviews – DCMA will request audit support to address prior reported deficiencies after the contractor has completed their CAP. For guidelines under DCAA cognizance the audit team will include audit steps to determine if the deficiencies have been corrected.

This program is intended to provide a logical sequence to the audit effort, and to reflect a mutual understanding between the auditor and the supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps in the program are intended as general guidance and should be modified as considered necessary to fit the current audit. Those steps not required should be marked "not applicable" (N/A) and lined through with proper explanation. Portions of the audit which may be covered in other assignments (e.g., audits of billing system, budgeting system, progress payments, MMAS, estimating system) should be referenced at the appropriate place in this program.

The primary objective of EVMS guidelines is to ensure that contractors use effective internal cost and schedule control systems that provide contractor and Government managers with timely and auditable data to effectively monitor their programs, meet requirements, and control contract performance. In accordance with OMB Circular A-11 Part 7, DoD Instruction 5000.02, and FAR 34.2, compliance with EVMS guidelines shall be required on cost or incentive contracts, subcontracts, intra-government work agreements and other agreements valued at \$20 million. In addition to requiring compliance with EVMS guidelines, for cost or incentive contracts, subcontracts, intra-

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<p>government work agreements, and other agreements valued at \$50 million or more, the contractor's EVMS must be formally validated and accepted by the cognizant contracting officer through an initial compliance evaluation conducted by DCMA.</p>
<p>When required by the contract, the cost and schedule control system used by the contractor in planning and controlling the performance of the contract must meet the guidelines specified in the American National Standards Institute (ANSI)/Electronic Industries Alliance (EIA) EVMS standard (ANSI/EIA-748-1998) Guidelines (summarized in Part 1 Section 2 of the Earned Value Management Implementation Guide as identified in the references below). Also, when included in the contract, the contractor must comply with DFARS 252.242-7005, Contractor Business Systems and the criteria for EVMS in DFARS 252.234-7002. Although Contract Performance Reports (CPRs) are usually required by contracts that are subject to full compliance with EVMS guidelines, DoD reporting requirements, such as the CPRs, Contract Funds Status Reports (CFSRs), Cost Data Summary Reports (CDSR) and Contractor Cost Data Reports (CCDRs), are specified separately in DD Form 1423, Contract Data Requirements List (CDRL), contained in the contract.</p> <p>The CDRL is a list of authorized data requirements for a specific procurement that forms a part of the contract. It is comprised of either a single DD Form 1423, or a series of DD Forms 1423 (individual CDRL forms) containing data requirements and delivery information.</p>
<p>EVMS surveillance begins with the award of the contract, continues through initial compliance and acceptance, and extends throughout the period of contract performance. In accordance with DoD policies and procedures, EVMS surveillance of the contractor's system after acceptance, and review of data emanating from that system, is to be accomplished by qualified individuals from the Contract Management Office (CMO) and DCAA. The objectives of EVMS surveillance are:</p>
<ul style="list-style-type: none">• To ensure that the contractor's management control system continues to: (1) provide valid and timely management information; (2) comply with the DoD EVMS guidelines; (3) provide timely indications of actual or potential problems; and (4) provide baseline integrity.
<ul style="list-style-type: none">• To ensure that the contractor's required external cost and schedule reports contain: (1) information that is derived from the same data base as that used by contractor management; (2) explicit and comprehensive variance analysis including proposed corrective action in regard to cost, schedule, technical, and other problem areas; and (3) information that depicts actual conditions.
Scope
<p>The scope of our EVMS audits will depend on how much reliance can be placed on the accounting system, internal controls, cost representations, and billing procedures. If the results of prior audits and the preliminary audit steps indicate low audit risk, audit scope should be reduced accordingly. This decision must reflect a mutual understanding</p>

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between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. This program does not replace individual auditor judgment and may be supplemented to satisfy the needs of a particular assignment.
DCAA's compliance and surveillance responsibilities include (1) auditing the contractor's accounting system policies and procedures for compliance with EVMS guidelines and contract provisions; and (2) performing audits of selective financial data contained in various reports submitted by the contractor to determine whether they accurately reflect the contractor's books and records.
Consider Cost Accounting Standards (CAS) implications in during the review of the EVM system for contracts with CAS requirements.
References
The following references should be reviewed prior to starting the audit. (Note: if any of the following links fail to open, paste them in the browser and enter.)
1. CAM 11-200, Audit of Contractor Compliance with Earned Value Management System (EVMS) Guidelines.
2. DCAA Headquarters Policy Programs Division EVMS site https://infoserv.dcaaintra.mil/headquarters/P/PPD/EVMS.htm#EVMS
3. National Defense Industrial Association (NDIA) Web site for the ANSI/EIA-748 B May 2011 Intent Guide: https://www.ndia.org
4. EVM Implementation Guide (accessed through DCAA Intranet under Audit Tools, EVMS or the EVMIG website (http://guidebook.dema.mil/79/EVMIG.doc) to assure the most current version).
5. FAR 34.2, Earned Value Management System
6. FAR 52.234.2, Earned Value Management System, 52.234.201 Policy, 52.234.203 Solicitation provisions and contract clause
7. DFARS 234.2, Earned Value Management System
8. DFARS 234.203, Solicitation Provision and Contract Clause.
9. DFARS 252.234-7001, Notice of Earned Value Management System (Previously 252-242-7001).
10. DFARS 252.234-7002, Earned Value Management System (Previously 252-242-7002). Older contracts may require FAR 52.234-4 Earned Value Management System.
11. DFARS 252.242-7005, Contractor Business Systems
12. Earned Value Management (EVM) Contract Requirements Checklist (http://www.acq.osd.mil/pm/)
13. Contract Data Requirements List (CDRL) DD Form 1423 for specific EVMS contract

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terms.
14. Office of Management and Budget (OMB) Circular A-11, Part 7, Planning, Budgeting, Acquisition, and Management of Capital: Assets, includes supplement, Capital Planning Guide, 2007: http://www.whitehouse.gov/omb/circulars_a11_current_year_a11_toc/
15. Department of Energy Reviews: DOE G413.3-10 05/06/2008 - https://www.directives.doe.gov/directives/current-directives/413.3-EGuide-10/view
16. For National Aeronautics and Space Administration (NASA) Reviews: NASA FAR Supp Re EVM Part 1834 - http://www.hq.nasa.gov/office/procurement/regs/1834.htm
17. For Supervisors of Shipbuilding, Conversion and Repair (SUPSHIPS) Reviews: SUPSHIP Operations Manual (SOM) (NAVSEA S0300-B2-MAN-010) 2008 Chapter 7: http://www.navsea.navy.mil/supship/SOM/Ch_7_Earned_Value_Management.pdf

B-1	Preliminary Steps	W/P Reference
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1.	Review the open MRD’s for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for “MRDs, AGMs, & AMGMs”.	
2.	Contact either the EVM Center or the DCMA designated surveillance monitor and discuss DCMA’s planned review:	
a.	Identify the EVMS Guidelines of the DCMA planned review related to DCAA’s area of responsibility.	
b.	Determine the reports and areas of the contractor’s system planned for review during the current compliance/surveillance period. For surveillance reviews request a copy of the current Standard Surveillance Plan (SSP) from the DCMA EVMS monitor and consider in selecting contracts for testing.	
c.	Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.	

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<p>d. Coordinate with DCMA to identify and obtain copies of any existing corrective action requests (CARs) or corrective action plans (CAPs) issued against the guidelines under DCAA’s responsibility.</p>	
<p>e. Brief the local DCMA regarding outstanding business system deficiencies. This should involve an open discussion between DCMA and DCAA to determine how business system deficiencies may affect any EVM Guidelines.</p>	
<p>f. Integrate the requester’s needs into the EVMS audit by including audit procedures necessary to address any additional risk areas identified by the ACO or DCMA EVMS monitor, including activities required to support the joint surveillance team in accordance with CAM 11-201d.</p>	
<p>g. Electronically transmit an acknowledgement/notification letter to the appropriate ACO/Buying Command notifying them of the commencement of the audit and expected completion date. The acknowledgement/notification letter should be issued within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
<p>3. Review the permanent files and audit leads to obtain background information, identify potential EVMS deficiencies, and identify high risk contracts to help establish the scope of audit.</p>	
<p>4. Coordinate with the contractor and obtain a walk-through of the EVMS and the supporting policies and procedures. The purpose of the contractor EVMS demonstration is to obtain and document an understanding of the contractor’s internal controls relating to the EVMS, including compliance with the DFARS criteria related to the EVMS (DFARS 252.234-7002). During the contractor’s walk through, the audit team should document their understanding of the system to the extent possible (e.g., by making detailed notes on the system documentation provided by the contractor and obtain screen shots of live demonstration when possible) and should take full advantage of the demonstrations to ask questions to ensure they have a sufficient understanding. (See W/P B-02 for the areas that should be addressed. Also, w/p 31a is provided for assistance in documenting the system.)</p> <p>During the walk-through discuss the following:</p> <ul style="list-style-type: none"> • Accounting software and version, EVMS software and version and all changes to the EVMS description and procedures since the last EVMS audit. • Significant EMVS covered contracts or programs to consider in selecting contracts for testing. 	

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<p>5. Review the most recently completed audit of the Accounting System to determine the extent that the testing done in that audit can be used in determining the contractor’s compliance with EVM guideline.</p>	
<p>6. FAOs that have cognizance of contractors with significant classified contracts should coordinate with the Field Detachment to determine the DCAA office with responsibility for performing EVMS on classified contracts. This coordination will ensure consistency and adequate audit coverage. This coordination should be documented in the working papers.</p>	
<p>7. Close coordination is required at FAOs cognizant of multi-segment contractor locations which use common EVM systems and/or policies and procedures. Document the EVMS audit responsibilities and audit steps to be performed at each contractor location. (Reference OAG Responsibility Matrix, DCAA Intranet, Audit Programs, Reports, OAG)</p>	
<p>8. Determine whether the contractor's EVMS has been accepted and validated by DCMA, and if so, include validation document in working papers. The signed validation document should be available from the DCMA EVM surveillance monitor. (This step is appropriate for requests for standard surveillance reviews only.)</p>	
<p>9. Review the following documents/items:</p>	
<p>a. A current universe of all performance measurement reports and related reports submitted in response to the contract data requirements list (CDRL-DD Form 1423) contained in EVM covered contracts and subcontracts. In cases where EVM requirements have been included in FFP and Time & Material contracts or CLINS, the auditor should discuss with the ACO or DCMA EV Specialist whether the work lends itself to meaningful use of EVM or if a waiver is appropriate and has been considered. If the program manager confirms that the EVM requirement is appropriate - standard surveillance should be performed concentrating on high risk guidelines and work breakdown structure (WBS) elements.</p>	
<p>b. Contractor policies and procedures for preparing Contract Performance Reports (CPRs) and Contract Fund Status Reports (CFSRs).</p>	
<p><i>NOTE: If these documents/items are not available in the permanent file, they can be obtained from the DCMA surveillance monitor or the contractor. Verify documents are current prior to starting review.</i></p>	
<p>10. Document the need for technical assistance. Coordinate with the DCMA surveillance monitor and request any required technical</p>	

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assistance.	
11. Obtain and document the understanding of the relevant contractor business systems that may impact the contractor’s EVMS. Identify any deficiencies that would impact the audit and document their potential impact on the contractor’s EVM system.	
12. If there have been significant changes to the system since the last audit and if the evidence to be obtained during the audit is dependent on computerized information systems, document on W/P B-2 the audit work performed that supports reliance on the computer-based evidence. Specifically, document or reference one or more of the following in W/P B-2:	
a. the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
b. the procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or	
c. the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer based data.	
<i>NOTE: When sufficient work is not performed to determine reliability qualify the audit report in accordance with CAM 10-210.4j.</i>	
13. Determine the extent EVMS guidelines flow down to subcontractors and request assist audits as necessary.	
a. Determine the extent of prime contractor surveillance.	
b. Determine whether the contractor has tasked its subcontractors to correct deficiencies noted in its surveillance reviews.	
c. In those cases where insufficient prime contractor surveillance is indicated, request an assist audit.	
14. Select the sample of contracts to test for the implementation testing portion of the audit. The sample of contracts should reflect high-risk or sensitive contracts, including contracts where problems were identified in prior year testing.	
15. From the sample of contracts identified above identify latest CPRs to test the attributes listed above for implementation on contracts. The actual testing will be performed in work paper sections D through F.	
16. Evaluate the contractor’s contract briefings for selected contracts. Any contracts that the contractor has not briefed should be briefed as part of this audit. Check contract briefings for EVMS contract provisions.	

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<p>17. Arrange and conduct an entrance conference with the contractor's personnel responsible for the EVMS and preparing the selected reports.</p>	
<p>18. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p> <p><i>Note: As part of the notification letter notify the contractor that a system walk through is required and DCMA will be invited to attend.</i></p>	
<p>19. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team’s understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See “Principal Sources of Fraud Indicators” below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedure to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p><i>Principle Sources of Fraud Indicators:</i></p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc. • CAM Figure 4-7-3. <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	

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20. Summarize the results of the risk assessment and preliminary audit steps and clearly identify the planned scope of audit.	
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C-1	System Description Compliance/Surveillance	W/P Reference
Version 1.3, dated January 2012		
<p>For compliance/validation reviews, determine whether the EVMS System complies with the EVMS Guideline. For validated systems, ensure the contractor’s EVMS is continuing to operate as previously accepted, and is continuing to comply with the EVM guidelines. Perform the following steps for the EVM guidelines under DCAA’s responsibility and included in the scope of audit as documented in WP B.</p> <p>In this section the auditor will review the contractor’s system description and applicable policies and procedures for compliance with the ANSI/EIA-748 guidelines, and document how the contractor’s system description meets the intent of the ANSI guidelines for the DCAA guidelines. Use the guidance in “Evaluation of Contractor’s System Description” (Other Audit Guidance) W/P 31a.</p> <p>Audit program steps for testing the contractor’s actual compliance with the ANSI/EIA-748 guideline attributes are contained in sections D through F.</p> <p>If the contractor’s system has changed with respect to these guidelines since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described for each of the guidelines below. Utilize the contractor’s cross reference from the system description to the ANSI guidelines if available.</p>		
<p>1. <u>Accounting Guideline 16</u>. Record direct costs in a manner consistent with the budgets in a formal system controlled by the general books of account. Evaluate the system description and policies and procedures for compliance with the attributes described below.</p>		
<p>a. The contractor’s accounting system provides a basis for auditing all direct costs charged to contracts (i.e., the direct costs charged to contracts can be traced back to source documents).</p>		
<p>b. The accounting system accumulates and allocates direct costs to control accounts on the same basis as budgets.</p>		
<p>c. Cumulative actual costs (ACWP) reported in the contract performance report agree with, or are reconcilable to, the costs recorded in the general books of account (accounting system). The contractor should perform reconciliations monthly.</p>		
<p>2. <u>Accounting Guideline 17</u>. When a work breakdown structure is used,</p>		

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summarize direct costs from control accounts into the work breakdown structure without allocation of a single control account to two or more work breakdown structure elements. Evaluate the system description and policies and procedures for compliance with the attributes described below:	
a. Actual costs are accumulated by WBS to allow for the direct comparison with associated budgeted costs by WBS.	
b. No single control account is allocated to two or more WBS elements. Direct costs should summarize from the control account level through the contract WBS to the total contract level without allocation of a lower level WBS element to two or more higher level WBS element to ensure no double counting.	
3. <u>Accounting Guideline 18</u> . Summarize direct costs from the control accounts into the contractor’s organizational elements without allocation of a single control account to two or more organizational elements. Evaluate the system description and policies and procedures for compliance with the attributes described below:	
a. Direct costs are accumulated to allow a direct comparison with associated budgets at the appropriate organizational level.	
b. No single control account is allocated to two or more higher level organizational elements. Direct costs should summarize from the control account level through the contract OBS to the total contract level without allocation of a lower level OBS element to two or more higher level OBS elements to ensure no double counting.	
4. <u>Accounting Guideline 19</u> . Record all indirect costs which will be allocated to the program consistent with the overhead budgets. Evaluate the system description and policies and procedures for compliance with the attributes described below:	
a. Indirect costs are accumulated in accordance with the contractor’s Disclosure Statement or written accounting policies and procedures for appropriate allocation through the contract WBS and organizational structure to the contract level.	
i) Indirect costs are charged to the appropriate indirect pools and incurring organization.	
ii) The bases and rates for allocating costs from each indirect pool are consistently applied.	
iii) The bases and rates for allocating costs from each indirect pool to commercial work are consistent with those used to allocate such costs to Government contracts.	
b. Indirect rates are updated in a timely manner to ensure realistic	

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monthly allocations of indirect costs without significant adjustments to performance measurement information.	
c. The lines of authority for incurring indirect costs correspond to the lines of responsibility for management control of the same components of costs.	
5. <u>Accounting Guideline 20</u> . Identify unit costs, equivalent unit costs, or lot costs when needed. Evaluate the system description and policies and procedures for compliance with the attributes described below:	
a. The accounting system can accumulate cost by lot, by unit or equivalent unit in terms of labor, material, other direct costs and indirect costs as required.	
b. The accounting system can separate contract costs into recurring and non-recurring categories when required by contract.	
6. <u>Accounting Guideline 21</u> . For EVMS, the material accounting system will provide for (1) accurate cost accumulation and assignment of costs to control accounts in a manner consistent with budgets using recognized, acceptable, costing techniques, (2) cost recorded for accomplishing work performed in the same period that earned value is measured and at the point in time most suitable for the category of material involved, but no earlier than the time of actual receipt of material and (3) full accountability of all material purchased for the program including the residual inventory. This Guideline is limited to incurred and budgeted costs; DCMA will review the earned value attributes. Evaluate the system description and policies and procedures for compliance with the attributes described below:	
a. Accurate cost accumulation and assignment of material costs to control accounts in a manner consistent with budgets using recognized, acceptable, costing techniques (actual cost, FIFO, LIFO, average unit cost, bulk costing, etc.)	
b. Material costs are being reported (ACWP) within the same accounting period as the associated earned value (BCWP). When necessary and significant, and when material actuals are not yet available, the use of estimated ACWP is required to ensure accurate performance measurement.	
c. All material for the contract is fully accounted for (including residual material).	
d. The system can differentiate between price and usage variance.	
7. <u>Planning, Scheduling, and Budgeting Guideline 13</u> . Establish overhead budgets for each significant organizational component of the company for expenses which will become indirect costs. Reflect in the program budgets, at the appropriate level, the amounts in overhead pools that are planned to be allocated to the program as indirect costs.	

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Evaluate the system description and policies and procedures for compliance with the attributes described below:	
a. The contractor’s Disclosure Statement and/or other written accounting policies and procedures includes a definition of indirect expenses, overhead pools, each item included in the composition of the overhead pools, and the basis for allocation of overhead costs to a contract over the life of the contract.	
i) Overhead cost budgets are established at least annually, for each organization which has authority to incur overhead costs.	
ii) The WBS and organizational levels for application of projected overhead costs are identified.	
b. Projected overhead costs are adjusted in a timely manner to reflect changes in current or projected base costs, overhead costs and overhead structure.	
8. <u>Revisions and Data Maintenance Guideline 30</u> . Control retroactive changes to records pertaining to work performed that would change previously reported amounts for actual costs, earned value, or budgets. Adjustments should be made only for corrections of errors, routine accounting adjustments, effects of customer or management directed changes, or to improve the baseline integrity and accuracy of performance measurement data. This Guideline is limited to incurred and budgeted costs; DCMA will review the earned value attributes. Evaluate the system description and policies and procedures for compliance with the attributes described below:	
a. Adjustments to direct and indirect accounting data are made only for routine accounting adjustments (e.g., end of period accruals) or corrections of errors. Accounting changes should be controlled to prevent inappropriate changes to performance measurement information.	
b. Accounting adjustments, when appropriate, are made in a timely manner.	
9. Summarize the results of the review of the system description.	

D-1	Reconciliations and CPR DID Compliance/Surveillance (Guidelines 16, 17, 18, 20, and 21)	W/P Reference
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DCAA’s purpose for reviewing the contractor’s reconciliation of EVMS data to the contractor’s accounting records is to ensure that the actual costs recorded in the accounting system properly flow into the EVM		

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<p>system and subsequent reports. DCAA’s purpose for reconciling external cost management reports, such as the CPR and CFSR, with each other and with contractor internal reports and other external reports, such as the Contractor Cost Data Report (CCDR), Quarterly Limitation on Payments (QLOP), progress payment requests, and public vouchers, is to ensure that the information being reported is accurate and differences in data from one report or reporting level to another are logical, consistent, and explainable. <u>The contractor should make the necessary reconciliations of the EVM data to the accounting records.</u></p> <p>In conjunction with completion of this section, determine whether the contractor’s practices are consistent with the EVM system descriptions and policies and procedures.</p>	
<p>1. Review CPRs (identified in Audit Step B-14) for compliance with; reporting due dates, format, content, and contractual requirements contained in the Contract Data Requirements List (CDRL) (DD Form 1423-1) and Data Item Description (DID) DI-MGMT-81466A (or applicable to specific contract). Use the DID checklist at W/P 31c.</p>	
<p>2. Review the CPR (Formats 1 and 2) to verify mathematical accuracy. Verify the accuracy of the math from the lowest level WBS/OBS to the higher level WBS/OBS on the CPR. For example verify the WBS level 4 costs equal the level 3 costs and the level 3 costs equal the level 2, etc. This should be done for both the current month and cumulative to date amounts. (Guidelines 17 and 18)</p>	
<p>3. Obtain and review the contractor's monthly reconciliation of the CPR to the cost ledgers. (Guideline 16)</p>	
<p>a. Trace the reported cumulative ACWP to the contractor’s job cost ledgers at the total contract level, and selectively trace at the control account level. As a part of this trace, ensure that estimated actuals are properly supported and documented when used by the contractor. (Guideline 16)</p>	
<p>b. Determine how the subcontract EVM data is provided to the prime contractor and if the data is adjusted by the prime for incorporation into the prime CPR. Consider the impact of this process may affect the reconciliation of the CPR ACWP to the accounting system books and records. (Guideline 16)</p>	
<p>c. Verify the contractor is reconciling major subcontractor CPR actual costs to the prime contractor’s accounting records (e.g. subcontract payments and invoices). (Guideline 16)</p>	
<p>d. Test the contractor’s accounting system to ensure it provides a basis for auditing all direct costs charged to contracts (i.e., the direct costs charged to contracts can be traced back to source</p>	

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<p>documents, records are maintained to show full accountability for all material purchased including residual inventory). This step would likely be performed during various MAARs reviews and incurred cost reviews. These traces should be referenced here in detail and the steps not duplicated if adequately tested elsewhere. (Guideline 16)</p>	
<p>e. Verify that the accounting system accumulates and allocates direct costs to control accounts on the same basis as budgets. To perform this review, identify the level at which the contractor schedules the work (BCWS), takes performance (BCWP), and records actuals (ACWP). The contractor’s system structure should ensure a valid comparison between the actuals collected, and controlled by the general books of account, and the budget earned. (Guideline 16)</p>	
<p>4. Reconcile the CPR to the CFSR. In addition, reconcile the CPR with other reports prepared by the contractor for other purposes, such as contractor cost data reports (CCDR), quarterly limitations on payment statements (QLOP), progress payment requests or public vouchers. Use the guidance in “Reconciliation of CFSR to CPR (W/P 31b)” (Other Audit Guidance).</p>	
<p>5. Request the contractor to explain any differences between the CPR, the CFSR and the cost ledgers. Verify significant contractor assertions to supporting documentation. Differences that cannot be explained and verified are indicators of significant internal control deficiencies in the cost accounting system and/or the performance measurement system.</p>	
<p>6. Select a sample of WBS from the CPR (Format 1). Obtain the WBS dictionary from the contractor. It should identify the lower level WBS and the control accounts (CA) that roll up to the reportable WBS selected. The rollup should be in accordance with the Responsibility Assignment Matrix (RAM) also available from the contractor.</p>	
<p>a. Test the accumulation of actual costs (ACWP) by WBS to allow for the direct comparison with associated budgeted costs (BCWS) by WBS. (Guideline 17)</p>	
<p>b. Test the roll up of control accounts to ensure that no single control account is allocated to multiple WBS elements. Direct costs should summarize from the control account level through the contract WBS to the total contract level without allocation of a lower level WBS element to multiple higher level WBS elements (to ensure no double counting exists). (Guideline 17)</p>	
<p>7. Select a sample of OBS elements from the CPR (Format 2). Obtain a report from the contractor that identifies the lower level OBS and</p>	

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<p>the control accounts (CA) that roll up to the reportable OBS selected. The rollup should be in accordance with the Responsibility Assignment Matrix (RAM).</p>	
<p>a. Test the accumulation of direct costs by OBS to allow a direct comparison with associated budgets (BCWS) at the appropriate organizational level (OBS). (Guideline 18)</p>	
<p>b. Test the roll up of control accounts to ensure that no single control account is allocated to multiple higher level organizational elements. Direct costs should summarize from the control account level through the contract OBS to the total contract level without allocation of a lower level OBS element to multiple higher level OBS elements (to ensure no double counting exists). (Guideline 18)</p>	
<p>8. Verify the accounting system can accumulate cost by lot, by unit or equivalent unit in terms of labor, material, and other direct and indirect costs, as required by contract. (Guideline 20)</p>	
<p>9. Verify the accounting system can separate contract costs into recurring and non-recurring categories when required by the contract. (In some instances, verification of the recurring and nonrecurring costs is performed in our 17870 CCDR audit.) (Guideline 20)</p>	
<p>10. Verify actual costs are accumulated and assigned to control accounts using the same costing techniques used to establish budgets. The same basis must be used for both budgeting and applying actual costs for materials. (Guideline 21, limited to incurred and budgeted costs, earned value reviewed by DCMA)</p>	
<p>11. Verify material costs (ACWP) are being reported within the same period as the associated earned value (BCWP). The use of estimated ACWP is required to ensure accurate performance measurement when material actuals are not yet available (when BCWP is recorded). Verify Control Accounts containing BCWP also contain ACWP. (Guideline 21, limited to incurred and budgeted costs, earned value reviewed by DCMA)</p>	
<p>12. Verify material for the contract is fully accounted for including residual material. (Guideline 21, limited to incurred and budgeted costs, earned value reviewed by DCMA)</p>	
<p>13. Select a sample of material items from the Control Accounts (consider the same WBS' selected above) and compare the incurred amounts (ACWP) to the original source for those items. Have the contractor reconcile any differences. (Guideline 21, limited to incurred and budgeted costs, earned value reviewed by DCMA)</p>	
<p>14. Summarize the results of the review.</p>	

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E-1	<u>Revisions and Data Maintenance - Guideline 30</u>	W/P Reference
Version 1.3, dated January 2012		
<p>The purpose of this section is to review the contractor’s procedures for incorporation of authorized contract changes and controls to prevent unauthorized retroactive changes. Guideline 30 is limited to incurred and budgeted costs; DCMA will review the earned value attributes.</p> <p>In conjunction with completion of this section, determine whether the contractor’s practices are consistent with the EVM system descriptions and policies and procedures.</p>		
<p>1. Verify the contractor’s management system includes procedures for incorporation of authorized contract changes and internal re-planning. These procedures should ensure that budget is not transferred independent of work scope, and that retroactive changes are strictly controlled.</p>		
<p>2. Verify adjustments to ACWP and BCWS made for routine accounting adjustments (e.g., end of period accruals) or corrections of errors.</p>		
<p>a. Accounting adjustments, when appropriate, are made in a timely manner.</p>		
<p>b. Request copies of system and/or program documentation supporting the approval and input of the adjustments. (Note: adjustments should be made at the same level in which the costs were originally incurred.)</p>		
<p>3. Identify all cost transfers between work breakdown structures (WBSs) and other contracts. Select a sample and:</p>		
<p>a. Verify that transfers are properly approved and documentation is on file explaining the reasons for the transfers.</p>		
<p>b. Determine if there appears to be a pattern to the transfers which indicates a recurring problem in booking of costs.</p>		
<p>4. Summarize the results of the review.</p>		

F-1	Direct & Indirect Rate Management – Guidelines 13, 16 and 19	W/P Reference
Version 1.3, dated January 2012		
<p>The purpose of this section is to identify the contractor’s management responsible for establishing and controlling direct and indirect rates and to review the policies, procedures and practices related to those rates. The</p>		

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<p>contractor should have overhead budgets for each significant organizational component in accordance with their disclosure statement. The contractor should also monitor the direct and indirect rates throughout the year and adjust the rates as required. Review the most recently completed Forward Pricing Rate Proposal audit to determine the extent that the testing done in that audit can be used to complete Audit Steps 1 and 2 below and can be referenced in detail.</p> <p>In conjunction with completion of this section, determine whether the contractor’s practices are consistent with the EVM system descriptions and policies and procedures.</p>	
<p>1. Verify that the lines of authority for incurring indirect costs correspond to the lines of responsibility for management control of the same components of costs. (The purpose is to ensure that the managers identified have control over the expenses in the pools used to create the indirect rates and can require changes to the expenses or can adjust the rates if that is required). (Guideline 19)</p>	
<p>2. The contractor’s Disclosure Statement and/or other written accounting policies and procedures includes a definition of indirect expenses, overhead pools, each item included in the composition of the overhead pools, and the basis for allocation of overhead costs to a contract over the life of the contract.</p>	
<p>a. Verify that the contractor has established overhead cost budgets at least annually, for each organization which has authority to incur overhead costs. (Guideline 13)</p>	
<p>b. Review the projected overhead costs to ensure that they are adjusted in a timely manner to reflect changes in current or projected base costs, overhead costs and overhead structure. (If contractor has an agreement with DCMA on thresholds as to when rates are to be revised, test compliance with that agreement during the last year.) The Contractor should demonstrate the processes followed monthly or quarterly to review their management of the indirect rates. (Guideline 13)</p>	
<p>c. Ensure indirect costs are accumulated in accordance with the contractor’s Disclosure Statement or written accounting policies and procedures for appropriate allocation through the contract WBS and organizational structure to the contract level. Review the most recently completed incurred cost review to determine the extent that the testing done in that audit can be used. Complete the following steps: (Guideline 16 & 19)</p>	
<p>i) Verify indirect costs are accumulated for comparison with the corresponding budgets.</p>	
<p>ii) Test to ensure the indirect costs are charged to the appropriate</p>	

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	indirect pools and incurring organization.	
	iii) Test the bases and rates for allocating costs from each indirect pool are consistently applied.	
	iv) Ensure that the bases and rates for allocating costs from each indirect pool to commercial work are consistent with those used to allocate such costs to Government contracts.	
	3. Verify that the direct labor and indirect rates are updated in the EVMS system in a timely manner to ensure realistic monthly allocations of direct and indirect costs without significant adjustments to performance measurement information. Test the rate tables used in the EVMS system to calculate the direct labor and indirect dollars for timeliness i.e. matching to the current forward pricing/budgeted rates, or the contractor’s published rates. (Guideline 16 & 19)	
	4. Summarize the results of the review.	
A-1	Concluding Steps	W/P Reference
	Version 1.3, dated January 2012	
	1. Discuss the factual matters with the ACO and the DCMA surveillance monitor to ensure all pertinent information has been considered.	
	2. Summarize the results of the review.	
	3. Complete indexing and reference working papers.	
	4. Draft Report (CAM 11-203.3 and 10-1200).	
	a. The report should fully describe any significant deficiencies together with recommendations for their correction. When possible, quantify the significance of the reported deficiencies (i.e. dollars, number of occurrence, number of contracts involved).	
	b. When an assist audit and/or a technical evaluation is necessary, and is not obtained, the Qualification paragraph should be used to qualify the results of audit for the non-receipt of such reports (CAM 10-1204.4).	
	5. Obtain supervisory and management review of all identified significant system deficiencies.	
	6. Conduct exit conference and provide copies of Draft Statement of Conditions and Recommendations to the contractor (CAM 4-304 and 11-203.3). Also, provide copies to DCMA EV Surveillance Monitor or the CMO using the guidance in CAM 11-203.5.a.	
	7. Complete administrative working papers and update permanent files (ICAPS, MAARs, CAS, etc.) (MAAR 1, MAAR 3).	