

Master Document – Audit Program

Activity Code 17760	EVM, Report Surveillance
Version 2.0, dated April 2004	
B-1	Planning Considerations
Purpose	
<p>This audit program is intended for use in performing the annual earned value management (EVM) surveillance audit in those years where only report surveillance is required. If system surveillance is also required, the audit should be set up and performed under activity code 17750, EVM System and Report Surveillance. This audit program may also be used, modified as appropriate, to perform requested audits of individual contract cost reports submitted by EVM-covered contractors.</p>	
<p>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), lined through, or deleted, as appropriate for your FAO. Portions of the audit which are 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.</p>	
<p>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 DoD policy, compliance with EVMS guidelines shall be required on significant contracts, subcontracts, or agreements within all acquisition programs unless waived by DoD during the acquisition process. For this purpose, significant contracts/agreements are defined as research, development, test, and evaluation (RDT&E) contracts/agreements with a value of \$73 million or more, and procurement or operations and maintenance (O&M) contracts/agreements with a value of \$315 million or more (in fiscal year 2000 constant dollars).</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) (reproduced in Section 2 of the Earned Value Management Implementation Guide (DCAAP 7641.47)). Although Cost Performance Reports (CPRs) are usually required by contracts that are subject to full compliance with EVMS guidelines, DoD reporting requirements, such as the CPRs, Cost/Schedule Status Reports (C/SSRs), Contract Funds Status Reports (CFSRs), and Contractor Cost Data Reports (CCDRs), are specified separately in DD</p>	

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Form 1423, Contract Data Requirements List, contained in the contract.
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:
<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.
DCMA is the executive agent for implementation of EVM on DoD contracts. DCMA normally appoints a member of the CMO as the surveillance monitor. The CMO monitor is assigned the overall responsibility for coordinating and accomplishing the EVMS surveillance. The surveillance monitor is assisted by personnel from the functional divisions of the CMO and DCAA in performing the activity required by the surveillance plan. Therefore, close coordination between DCMA, CMO, and DCAA is required in the preparation of the surveillance plan to ensure effective EVMS surveillance and to avoid duplication of oversight. The purpose of this audit program is to facilitate DCAA's participation in this surveillance activity.
Scope
The scope of our surveillance audits will depend on the contractor's financial condition and 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 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 surveillance responsibilities include (1) auditing the contractor's accounting system policies and procedures for compliance with EVMS guidelines and contract provisions (system surveillance); (2) performing periodic 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 (report surveillance); and (3) performing periodic evaluations of related financial areas, including budgeting, direct and

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indirect costs, variance analysis, and forecasting.
References (Should be reviewed prior to starting the audit)
1. CAM 11-200 Audit of Contractor Compliance with Earned Value Management System (EVMS) Guidelines.
2. CAM 11-300 Audit of Contractor Compliance with DoD Program Management Systems Reporting Requirements.
3. DCAAP 7641.47 EVMS Implementation Guide.
4. DFARS 234.005-70 Earned Value Management System
5. DFARS 234.005-71 Solicitation Provision and Contract Clause.
6. DFARS 252.234-7000 Notice of Earned Value Management System.
7. DFARS 252.234-7001 Earned Value Management System.

B-1	Preliminary Steps	WP Reference
	Version 2.0, dated April 2004	
	1. For the annual report surveillance audit, obtain and review the risk assessment performed during preparation of the program plan to identify:	
	a. the initial assessment of the level of system surveillance required;	
	b. any ACO concerns;	
	c. high risk or high visibility contracts to include in the sample of reports generated from the EVMS;	
	d. the universe of contracts containing reporting requirements; and	
	e. the initial assessment of the number of contracts to test based on a 3 year cycling of contracts.	
	Note: If the risk assessment performed during the preparation of the program plan determined that system surveillance was required, the audit should be set up and performed under activity code 17750, EVMS System and Report Surveillance.	
	2. Determine whether the contractor's EVMS has been accepted.	
	3. Review the following documents/items:	
	a. The contractor's System Description Document.	

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b. The EVMS Evaluation Guide that was completed during the acceptance process.	
c. The surveillance plan prepared by the surveillance monitor and any revisions made since the last review.	
d. A list of all performance measurement reports and related reports submitted in response to the data requirements list (DD Form 1423) contained in covered contracts.	
e. Contractor policies and procedures for preparing CPRs, C/SSRs, and CFSRs.	
NOTE: If these documents/items are not available in the permanent file they can be obtained from the CMO surveillance monitor.	
4. For the annual report surveillance audit, contact the DCMA designated surveillance monitor and discuss DCMA's surveillance plan:	
a. Identify those elements of the plan related to DCAA's area of responsibility.	
b. Determine the reports planned for review during the current surveillance period.	
c. Determine if the Government contract administration and program office officials are aware of any cost or schedule problems which affect the contractor's estimate at completion (EAC). Determine and document what these officials have done to verify the accuracy of the EAC. If appropriate, obtain copies of any reports prepared (see CAM D-301).	
d. Discuss the planned scope of audit and determine if there are additional audit steps required to satisfy the customer's needs or concerns.	
5. For requested audits, contact the requester to identify any specific areas of risk or concern.	
6. Document the need for technical assistance. Coordinate with the DCMA surveillance monitor and request any required technical assistance.	
7. 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.	
8. Understanding and Evaluating the Contractor's Internal Control Structure	
a. Review relevant Internal Control Audit Planning Summaries (ICAPS) (or ICQ for nonmajor contractor where ICAPS have not been completed) to obtain and document an understanding of the	

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estimating system and any other applicable internal control systems the contractor may have (e.g., labor, MMAS, etc.). Identify any deficiencies that would impact the audit and document their potential impact on the contractor’s EVM system.	
b. If the contractor is classified as non-major (where ICAPS have not been completed), and if the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2:	
(1) the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
(2) 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	
(3) the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data.	
When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4 and 10-1204.4.	
9. Determine the extent that EVMS guidelines flow down to subcontractors.	
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.	
10. For the annual report surveillance audit, select the sample of contracts to test. The sample of contracts should reflect:	
a. A three-year cycling of contracts containing reporting requirements, with at least one contract tested per year,	
b. Plus high-risk or sensitive contracts, including contracts where problems were identified in prior year testing.	
11. Arrange and conduct an entrance conference with the contractor's personnel responsible for the EVMS and preparing the selected reports.	
12. In planning and performing the examination, review the fraud risk indicators specific to the audit. The principal sources for the	

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<p>applicable fraud risk indicators are:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and • CAM Figure 4-7-3. <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>	
<p>13. Summarize the results of the risk assessment and preliminary audit steps and clearly identify the planned scope of audit.</p>	

C-1	Evaluation of Reports – Report Surveillance	WP Reference
Version 2.0, dated April 2004		
1.	Review the selected reports and verify the mathematical accuracy.	
2.	Review the selected reports for compliance with contractual requirements, such as reporting due dates, format, and content.	
3.	Obtain and review the contractor's reconciliation of the reports to the contractor's cost ledgers. Selectively trace the reported actual cost data to the contractor's job cost ledgers.	

D-1	Reconciliations – Report Surveillance	WP Reference
Version 2.0, dated April 2004		
1.	Reconcile the CPR or C/SSR to the CFSR using the guidance in “EVMS-DCAA Reconciliation of EVMS Reports” (Other Audit Guidance).”	
2.	Reconcile the CPR or C/SSR to reports prepared by the contractor for other purposes such as contractor cost data reports (CCDR), quarterly limitation on payment statements (QLOP), progress payment requests, and public vouchers.	
3.	Request the contractor to explain any differences between the CPR or C/SSR, the CFSR, the cost ledgers, and the other reports. Differences that cannot be explained are indicators of significant internal control deficiencies in the cost accounting system and/or the performance	

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measurement system.	
4. Immediately advise the contractor and the surveillance monitor of the system deficiencies and report the condition using the guidance in CAM 5-105d.	

E-1	Estimated Cost at Completion – Report Surveillance	WP Reference
Version 2.0, dated April 2004		
1.	Determine whether the EAC used by the contractor was a "bottoms-up" EAC or was formula driven. Refer to the contractor's system description document to determine the required frequency of "bottoms-up" EACs.	
2.	Confirm that data utilized in the EAC was prepared and approved by the responsible individual as defined in the system description document. Normally, someone such as the Cost Account Manager prepares the data.	
3.	Verify that reasons for revisions to the EAC are fully documented and based on verifiable data.	
4.	Determine if the EAC appears reasonable when compared to projections using trend analysis techniques. Note: DCMA frequently evaluates reported EACs using similar trend analysis techniques. Do not duplicate analyses available from the CMO or Program Office.	
a.	Graphically plot the cumulative to date Budgeted Cost of Work Scheduled (BCWS), Budgeted Cost of Work Performed (BCWP), and Actual Cost of Work Performed (ACWP), on a monthly basis. Compare to identify unusual fluctuations (positive and negative) and trace to the cost account level to identify the underlying reasons (See “EVMS-Trend Analysis of EAC Using Performance Indexes” (Other Audit Guidance)).	
b.	Project the EAC using Cost Performance Indices (CPIs) and Schedule Performance Indices (SPIs) as explained in “EVMS-Trend Analysis of EAC Using Performance Indexes” (Other Audit Guidance).	
c.	Significant differences between the EACs projected using the CPI and SPI and the contractor's "bottoms-up" ETC/EAC may indicate serious problems in the contractor's estimates and/or system and must be thoroughly investigated.	
d.	Discuss these differences with the contractor, the surveillance monitor, and the program office, and request an explanation for	

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the difference.	
e. If the difference is not explained to the satisfaction of the auditor, request a technical evaluation on the items in question.	
5. Evaluate the reasonableness of the contractor's "bottoms-up" ETC/EAC using the guidance in CAM 9-300.	
a. Verify that the contractor has been consistent in its ETC/EAC preparation.	
b. Verify that the contractor has used appropriate rates and factors.	
c. Review the quantitative and qualitative aspects of the EAC for reasonableness utilizing Government technical assistance if considered necessary.	

F-1	Variance Analysis – Report Surveillance	WP Reference
	Version 2.0, dated April 2004	
	To ensure timely and responsible actions are taken by the contractor to identify causes and minimize the impact on contract performance:	
	1. Review schedule and cost variances disclosed in the CPRs or C/SSRs and contractor comments on significant problem areas, reasons for those variances, their impact on the program, and corrective action taken or to be taken.	
	2. If appropriate, coordinate with the surveillance monitor, Government program manager, technical specialists, etc., to assess impact of schedule slippage and problems in technical performance.	
	3. On a sampling basis, select areas of significant cost variances and trace to the required action level.	
	4. Determine if narrative descriptions provided by the contractor are valid and adequate. Discuss causes and proposed remedies with the contractor to assess responsiveness of proposed actions.	
	5. Determine if the impact of any existing variances are reflected in the estimate to complete the contract.	

A-1	Concluding Steps	WP Reference
	Version 2.0, dated April 2004	
	1. Discuss audit findings with supervisor and hold an exit conference	

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(follow the guidance in CAM 4-304.4).	
2. Discuss the findings with the ACO and the surveillance monitor to ensure all pertinent information has been considered.	
3. Complete indexing and reference working papers.	
4. Draft Report (CAM 11-209.2 and 10-1200).	
a. The report should fully describe any significant unresolved deficiencies together with recommendations for their correction.	
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. If the auditor has encountered information that constitutes evidence or raises suspicion that fraud or other illegal acts have occurred, refer such suspicion by completing a DCAA Form 2000 (see CAM 4-702.4 and 5).	
6. Supervisory Review.	
7. Complete administrative working papers and update permanent files (ICAPS, MAARs, CAS, etc.).	
8. 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:	
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.	
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.	
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.	
d. Once an audit report is signed, the electronic document should	

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<p>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 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 machine, that electronic files stored on removable media are not corrupted and can be unarchived.</p>	

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Indicate the test was successful by placing tester initials and date prominently on the CD label.	
k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).	
m. <u>Do Not File Sensitive Audits in iRIMS</u> : 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.	