

**Master Document – Audit Program**

<b>Activity Code 17770</b>		<b>EVM System Compliance</b>
<b>Version 3.0, dated April 2004</b>		
<b>B-1</b>	<b>Planning Considerations</b>	
<b>Purpose</b>		
<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). Portions of the audit, which are covered in other assignments (e.g., reviews 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 Earned Value Management System (EVMS) Guidelines is to ensure that contractors use effective internal cost and schedule control systems which 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 and subcontracts within all acquisition programs unless waived by DoD during the acquisition process. For this purpose, significant contracts are defined as flexibly priced research, development, test, and evaluation contracts with a value of \$73 million or more or procurement contracts with a value of \$315 million or more (in fiscal year 2000 constant dollars). Compliance with EVMS guidelines is not required on firm fixed price contracts, time and material contracts, and contracts which consist mostly of level-of-effort work; however, exceptions may be made for individual contracts. DCMA is the executive agent for implementation of EVM on DoD contracts. DCMA normally appoints a member of the Contract Management Office (CMO) at each contractor location as the EVMS monitor.</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 Interim Defense Acquisition Guidebook, (formerly DoD 5000.2-R), Subpart 2.9.3.4. The EVMS guidelines review process begins with the award of the contract, continues through initial compliance and acceptance, and extends throughout the period of contract performance. DFARS 252.234-7001, Earned value management system, requires the contractor to demonstrate that its management system complies with the EVMS guidelines contained in DoD 5000.2-R. A contractor whose EVMS was accepted for application to another contract of the same type at the same facility will not be required to demonstrate that its management system complies with the EVMS guidelines. However when a contractor is required to demonstrate that its</p>		

## Master Document – Audit Program

<p>management system complies with the EVMS guidelines, the contractor must undergo an initial compliance review. The initial compliance review is conducted by a DoD team whose leader is appointed by DCMA. The team includes a DCAA auditor.</p>
<p>After the initial acceptance of a contractor's EVMS, no further review for system acceptance will be conducted unless there is a specified need determined by the . If a specific need is determined, the Government conducts a post acceptance review for cause. The scope and conduct of the post acceptance review will focus on the system processes and specific EVMS guidelines affected by the problem identified by the Government. The post acceptance team will be selected by the Government EVMS monitor and will be composed of the appropriate EVMS personnel needed to address the identified problem.</p>
<b>Scope</b>
<p>The scope of initial compliance and post acceptance reviews will be based upon the specific request from the EVMS team leader. The auditor's primary objective is to review the accounting system and related financial areas assigned by the EVMS team leader and determine whether the management control system complies with the EVMS guidelines on areas assigned and is being implemented on the contract under review. The auditor is responsible for advising the team leader of the conclusions on the areas reviewed, and will be responsible to the team leader for the timely completion of the effort specifically assigned the auditor. The scope of the review 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.</p>
<b>References</b> (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 Systems.
5. DFARS 252.234-7000 - Notice of Earned Value Management System.

**Master Document – Audit Program**

6. DFARS 252.234-7001 - Earned Value Management System (contract clause).
7. DoD EVMS homepage - <a href="http://www.acq.osd.mil/pm/">http://www.acq.osd.mil/pm/</a>

<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
<b>Version 3.0, dated April 2004</b>		
1.	Review the audit request and contact the EVMS team leader to determine EVMS guidelines areas to be reviewed by the auditor.	
2.	Attend the initial EVMS review team meeting, the EVMS team’s Progress Assistance Visit (PAV), and the contractor’s demonstration of how the EVMS will be structured and used in actual operation.	
3.	Review the contractor’s policies and procedures for preparing CPRs, C/SSRs, CFSRs, and CCDRs.	
4.	Review the permanent files and related Internal Control Audit Planning Summaries for other contractor systems such as billing, estimating, material management and accounting, budgeting, and labor or timekeeping for previously noted deficiencies which could impact the scope of the current audit. Forward pricing and other audits may also be reviewed.	
5.	Determine if the team leader or Government contract administration and program office officials are aware of any cost or schedule problems that affect the contractor's EVMS. If appropriate, obtain copies of any reports prepared.	
6.	Coordinate/request any technical assistance required to fulfill DCAA's responsibilities under the current EVMS review (see CAM Appendix D).	
7.	Arrange and conduct an entrance conference with the contractor's personnel responsible for the EVMS guidelines and cost performance reports.	
8.	If applicable, the auditor should contact the DCAA at the corporate office to determine whether there are any corporate-wide EVMS advance agreements and whether the corporate-wide agreements impact the current audit. If so, the auditor should modify the audit steps accordingly.	
9.	In planning and performing the examination, review the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are: <ul style="list-style-type: none"> <li>• Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at</li> </ul>	

**Master Document – Audit Program**

<p><a href="http://www.dodig.osd.mil/PUBS/index.html">www.dodig.osd.mil/PUBS/index.html</a>, and</p> <ul style="list-style-type: none"> <li>• 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>	
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<b>C-1</b>	<b>Detailed Steps</b>	<b>WP Reference</b>
<b>Version 3.0, dated April 2004</b>		
	The EVMS Evaluation Guide, Appendix B of the EVM Implementation Guide (DCAAP 7641.47 (see CAM 11-202.1)), should be used as necessary in the review of the contractor’s management system to ensure compliance with the EVMS guidelines. The auditor should also become thoroughly familiar with Part I, Section 3, Guidelines Discussion of DCAAP 7641.47. The Evaluation Guide and Part I, Section 3 of DCAAP 7641.47 provide detailed discussions on each guideline and the related management characteristics in a good EVMS relative to each guideline. They also provide recommendations on the typical contractor documents that should be reviewed to support each guideline.	
	DCAA may be asked to review the EVMS guidelines included in the Accounting Guidelines 16, 17, 18, 19, 20 and 21; Organization Guideline 4; Planning and Budget Guidelines 8, 9 and 13; Analysis and Management Reports Guidelines 22, 24 and 27 and Revisions and Data Maintenance Guideline 30. During a post acceptance review for cause, DCAA reviews only selected guidelines in the above list. Accordingly, the auditor should perform those audit steps applicable to the guideline or guidelines specifically identified by the team leader as areas assigned to the auditor for the current review.	
1.	Guideline 16: Record direct costs in a manner consistent with budgets in a formal system controlled by the general books of accounts.	
	a. Verify that 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).	
	b. Verify that the accounting system accumulates and allocates direct costs to control accounts on the same basis as budgets.	
2.	Guideline 17: When a work breakdown structure is used, summarize direct costs from control accounts into the work breakdown structure (WBS) without allocation of a single control account to two or more	

## Master Document – Audit Program

work breakdown structure elements.	
a. Review contractor's proposed WBS.	
b. Verify that actual costs are accumulated by WBS so as to allow for direct comparison with associated budgeted costs by WBS.	
c. Verify that no single control account is allocated to two or more WBS element.	
3. Guideline 18: 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.	
a. Review the contractor's organizational structure	
b. Verify that direct costs are accumulated to allow a direct comparison with associated budgets at the appropriate organizational level.	
c. Verify that no single control account is allocated to two or more higher level organizational elements.	
4. Guideline 19: Record all indirect costs which will be allocated to the contract.	
a. Verify that 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.	
b. Verify that the indirect rates are updated in a timely manner to ensure realistic monthly allocations of indirect costs without significant adjustments to performance measurement information.	
5. Guideline 20: Identify unit costs, equivalent unit costs, or lot costs when needed.	
a. Verify that the accounting system can accumulate cost by lot, by unit or equivalent unit, as required.	
b. Verify that the accounting system can separate contract costs into recurring and non-recurring categories when required by contract.	
6. Guideline 21: 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 performance measurement at the point in time most suitable for the category of material involved, but no earlier than the time of progress payments or actual receipt of material and (3) full accountability of all material purchased for the program including the residual inventory.	
a. Verify that material costs are being reported within the same	

## Master Document – Audit Program

	accounting period as the associated earned value.	
	b. Verify that cost performance for material occurs at the time most suitable for the type of material involved, but no earlier than point of receipt.	
	c. Verify that all material for the contract is fully accounted for including residual material.	
7.	Guideline 4: Identify the company organization or function responsible for controlling overhead (indirect costs).	
	a. Review contractor's organization charts and verify that the managerial positions responsible for establishing and controlling indirect budgets are clearly identified in the contractor's organizational structure.	
	b. Verify that the responsibilities of the above managerial positions are in writing and clearly described.	
8.	Guideline 8: Establish and maintain a time-phased budget baseline, at the control account level, against which program performance can be measured. Budget for far-term efforts may be held in higher level accounts until an appropriate time for allocation at the control account level. Initial budgets established for performance measurement will be based on either internal management goals or the external customer negotiated target cost including estimates for authorized but undefinitized work. On Government contracts, if an over target baseline is used for performance measurement reporting purposes, prior notification must be provided to the customer.	
	a. Verify that the Performance Measurement Baseline (PMB) contains budgets for all costs at the level appropriate for project and/or company management.	
	b. Verify that average indirect rates for the life of contract are not used (annual indirect rates should be used) to compute indirect costs included in the Performance Management Baseline. Average indirect rates may distort cost performance.	
9.	Guideline 9: Establish budgets for authorized work with identification of significant cost elements (labor, material, etc.) as needed for internal management and for control of subcontractors.	
	a. Verify that budgets for material requirements are based on contractor material requirement documents.	
	b. Verify that budgets for material expenses are time-phased in support of schedule requirements.	
	c. Verify that labor costs are based on accepted forward pricing/budgeted rates and hours.	

**Master Document – Audit Program**

d. Verify that indirect rates are based on accepted forward pricing/budgeted rates.	
e. Verify that ODCs are based on ODC requirements contained in the contract.	
10. Guideline 13: 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.	
a. Verify that 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.	
b. Verify that projected overhead costs are adjusted in a timely manner to reflect changes in current or projected base costs, overhead costs and overhead structure.	
11. Guideline 22: At least on a monthly basis, generate the following information at the control account level and other levels as necessary for management control using cost data from, or reconcilable with, the accounting systems: (1) Comparison of the amount of planned budget and the amount of budget earned for work accomplished. This comparison provides the schedule variance. (2) Comparison of the amount of the budget earned with the actual (applied where appropriate) direct costs for the same work. This comparison provides the cost variance.	
a. Verify that labor, overhead and other rates used to calculate earned value are on the same basis as used to calculate associated budgets.	
b. Verify that actual cost data from the accounting system is used when determining cost variances.	
12. Guideline 24: Identify budgeted and applied (or actual) indirect costs at the level and frequency needed by management for effective control, along with reasons for any significant variances.	
a. Verify that management has procedures to evaluate variances between budgeted and actual indirect costs and will initiate actions to identify and correct causes of variances.	
b. Verify that indirect variances will be recorded by element of expense, e.g., indirect labor, fringe benefits, etc. and that the system requires that the cause of significant variances be identified and reported.	

**Master Document – Audit Program**

13. Guideline 27: Develop revised estimates of cost at completion based on performance to date, commitment values for material, and estimates of future conditions. Compare this information with the performance measurement baseline to identify variances at completion important to company management and any applicable customer reporting requirements including statements of funding requirements.	
a. Verify that the most accurate rates are used to compute the estimates at completion (EAC) – historical rates, projected rates where applicable, etc.	
b. Verify that the contractor compares budgeted indirect costs to estimates of final indirect costs and analyzes any significant differences with appropriate corrective actions.	
14. Guideline 30: 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.	
a. Verify that adjustments to 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. Verify that accounting adjustments, when appropriate, are made in a timely manner.	

<b>A-1</b>	<b>Concluding Steps</b>	<b>WP Reference</b>
<b>Version 3.0, dated April 2004</b>		
1.	Discuss audit findings with supervisor and provide the team chief with any audit findings and recommendation prior to completion of the in plant effort of the EVMS guidelines review team to enable the team chief to conduct the exit conference with the contractor (CAM 11-209.1a.).	
2.	Discuss the findings with the ACO and the EVMS team leader to ensure all pertinent information has been considered.	
3.	Complete indexing and cross-reference working papers.	
4.	Draft Report (CAM 11-209.1 and 10-1200).	
5.	The report should fully describe any significant unresolved	

## Master Document – Audit Program

deficiencies together with recommendations for their correction.	
6. When an assist audit and/or a technical evaluation is necessary, and is not obtained, the Qualifications paragraph should be used to qualify the results of audit for the non-receipt of such reports (CAM 10-1204.4).	
7. 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).	
8. Supervisory Review.	
9. Complete administrative working papers and update permanent files (ICAPS, MAARs, CAS, etc.).	
10. 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 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.	

**Master Document – Audit Program**

<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. 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>	

**Master Document – Audit Program**

<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>	
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