

## Master Document Audit Program

B-1	Planning Considerations	DSCA Agreed-Upon Procedures
<b>Version No. 3.0, dated April 2004</b>		
<b>Background</b>		
<p>1. The Secretary of Defense has designated the Defense Security Cooperation Agency (DSCA) as the director, administrator, and supervisor of the Security Assistance Program. Responsibilities are defined and authorized by the Foreign Assistance Act (FAA) of 1961, as amended; the Arms Export Control Act (AECA), as amended; and other applicable statutes, Executive Orders, and Directives. Foremost of these is the Security Assistance Management Manual, DoD 5105.38-M. Included within the Security Assistance Program is the Foreign Military Financing (FMF) Program, which provides loan and grant financing for Foreign Military Sales and purchases from U.S. firms, which are defined as Direct Commercial Contracts (DCC).</p>		
<p>2. Under the FMS Program [Ref.: CAM 7-1307], the Department of Defense acts as the agent for the purchasing country. These procurements are fully subject to the FAR and audit oversight. However, this is contrasted with DCC procurements, which are between the foreign Government and a U.S. firm -- with the U.S. Government performing reviews, approvals, and audits as a function of providing the financing. DSCA requests that DCAA apply agreed-upon procedures to determine if a contractor is in contractual compliance with the elements of the jointly signed Contractor's Certification and Agreement with Defense Security Cooperation Agency (Certification and Agreement).</p>		
<p>3. DCCs are agreements between the foreign Government and a U.S. contractor, therefore, they are not subject to the Federal Acquisition Regulation (FAR) or the Cost Accounting Standards (CAS). However, the Certification that DSCA requires all contractors to sign in order to receive financing provides for contractor compliance with certain concepts, procedures and financial constraints that are addressed in the FAR and DCAA's CAM.</p>		
<p>4. The "Certification Agreement" and the DSCA "Guidelines for Foreign Military Financing of Direct Commercial Contracts" have been revised over time. The latest revision became effective on or about August 2001. (The original certification was dated 1985.) Therefore, the auditor should carefully review the Contractor's Certification to ensure that the appropriate version is being evaluated.</p>		
<p>5. These agreed-upon procedures are based on the August 2001 Certification and Agreement, and should be revised for procedures applied to evaluate compliance with earlier versions of the Agreement. On November 4, 1991, the Office of the Comptroller, DoD, issued a memorandum with an attachment entitled: "Organizational Responsibilities - Audits of Private Firms Under the Foreign Military Financing Program." The attachment outlines the responsibilities of</p>		

## Master Document Audit Program

<p>DSCA and DCAA regarding evaluations of direct commercial contracts and makes it clear that only certain elements of the Certification and Agreement are subject to evaluation by DCAA. These elements are listed in Section C-1 of these procedures. As usual, auditors should exercise judgment with respect to their treatment of other matters that come to their attention outside these elements.</p>
<b>Purpose and Scope</b>
<ol style="list-style-type: none"><li>1. The objective of these agreed-upon procedures is to provide auditors with tools needed to plan, perform, and report on their evaluation. It is intended to provide a logical sequence to the evaluation and reflects a mutual understanding between the DCMA or DSCA and DCAA as to the scope required to meet GAGAS and DCAA objectives for the current assignment. Those steps not required should be marked “not applicable” (N/A).</li></ol>
<ol style="list-style-type: none"><li>2. The purpose of this evaluation is to apply procedures and to report on the contractors’ compliance with specific elements contained in its signed Contractors Certification and Agreement. If the contractor is found to be in noncompliance with any of the certification elements, the auditor is to describe the situation and include the amount of any corresponding/related costs in the report for DSCA's disposition.</li></ol>
<ol style="list-style-type: none"><li>3. Before beginning this evaluation, the auditor should inquire about internal control audits performed by the contractor or its external auditors relating to this area. In those cases where internal or external audits have been performed, the auditor should follow guidance contained in CAM 4-1000, Reliance on the Work of Others. Before evaluating the internal controls, the auditor should determine that the system contemplated for evaluation is material to the Government.</li></ol>
<ol style="list-style-type: none"><li>4. These procedures do not provide for the testing of individual transactions. It is expected that transaction test programs will be developed locally to permit the efficient gathering of evidential matter at individual locations.</li></ol>
<b>References</b>
<ol style="list-style-type: none"><li>1. <i>Guidelines for Foreign Military Financing of Direct Commercial Contracts.</i> This DSCA guideline provides policies and procedures for the use of foreign military financing to fund direct commercial contracts between U.S. industry and the Government of foreign countries. The guidelines serve as a basis for the DSCA review of the foreign Government’s request for approval to use foreign military financing to fund direct commercial contracts. The scope of DCAA’s evaluation focuses on the contractor’s compliance with the signed Certification and Agreement</li></ol>

## Master Document Audit Program

2. <i>Contractors Certification and Agreement with Defense Security Cooperation Agency.</i> In consideration of a grant/loan, the contractor agrees to comply with the elements/provisions of the Certification and Agreement. The requirements imposed on the contractor by the Certification and Agreement are contractual and not regulatory.
3. <i>Security Assistance Management Manual [SAMM], DoD 5105.38-M.</i> This manual provides DSCA's policies and procedures for administering U.S. Military Assistance and Foreign Military Sales Programs and related activities.
4. CAM 5-600, Audit of Purchasing System Internal Control; 7-1300, Selling Costs.
5. CAM 14-908, Compliance Reviews for the Defense Security Cooperation Agency (DSCA)
6. FAR 3.4, Contingent Fees.

B-1	Preliminary Steps	WP Reference
Version No. 3.0, dated April 2004		
	1. For evaluations requested by DSCA (not for evaluations requested by the purchasing country through DCMA), DSCA will notify the contractor of the planned evaluation. A copy of the notification of intent to apply agreed-upon procedures letter is included in a "file folder." A file folder for each contractor selected is prepared by DSCA for use by DCAA. Generally, the contents of the file include the Contractor's Certification and Agreement, relevant correspondence, and "audit" leads. The file is provided to the DCAA auditor from DSCA through DCAA Headquarters.	
	2. For evaluations requested by DCMA, obtain a copy of the Contractor's Certification and Agreement and relevant correspondence from the contractor.	
	3. Arrange for an entrance conference.	
	4. Review the FAO's permanent files and determine if vulnerability risk assessments made for the contractor's performance of Government contracts also apply to commercial contracts approved by DSCA.	
	5. Determine if there are any outstanding deficiencies previously reported from audits of the contractor's internal controls that affect the evaluation.	
	6. Determine if there is a contractor purchasing system review (CPSR) that reported any deficiencies that affect the evaluation.	
	7. Review the contractor's policies and procedures that describe the	

**Master Document Audit Program**

<p>process for ensuring compliance with the certification agreement. If the contractor states that written policies and procedures do not exist, request the contractor to prepare a written description of the procedures that are followed. Request the contractor to include references to the company's policies and procedures that mandate the process.</p>	
<p>a. Evaluate the policies/procedures and determine if there are potential internal control weaknesses that could result in noncompliances with the certification agreement.</p>	
<p>b. Determine if the accounting practices applicable to DSCA contracts have adverse cost impacts on the performance of U.S. Government flexibly priced contracts performed in accordance with FAR and CAS provisions.</p>	
<p>8. Review the contract, contract modifications, and correspondence between the foreign Government, the contractor, and DSCA. Note any special provisions and/or agreements that might affect the items in the certification agreement and the evaluation for compliance.</p>	
<p>9. Note the procedures described in the contract for the contractor's submission of invoices, i.e., predetermined scheduled submissions, milestone accomplishment(s), percentage of completion, deliveries, etc.</p>	
<p>10. Identify the current contract percentage of completion and estimated completion date for inclusion in the audit report.</p>	
<p>11. Summarize the results of the preliminary procedures.</p>	

<b>C-1</b>	<b>Agreed-Upon Procedures</b>	<b>WP Reference</b>
Version No. 3.0, dated April 2004		
Evaluate the elements within the applicable Certification and Agreement. DCAA's evaluation of compliance is limited to the following elements:		
<b><u>Element Description</u></b>	<b><u>Element Number*</u></b>	
	<b>Jan 1995</b>	<b>May 2000/Aug 2001</b>
Flowdown of Terms & Conditions	4, 5, 6, 8	5,6,7,9
Commissions & Other Contingent Fees	7, 12	8,13
Foreign Content	10, 11, 13	11, 12
Down Payments	14	14
Export Transportation	15	15

**Master Document Audit Program**

Travel Cost	16	16
Penalty, Refund, & Other Reimbursement	19	19
<p>* The referenced element numbers correspond with the numbered elements in DSCA’s January 1995, May 2000 and August 2001 Certification &amp; Agreements. The element description in DSCA’s initial agreement dated 1985, and subsequent revisions, prior to January 1995, have different element numbers from those listed above.</p>		
<p>1. <u>Elements 5, 6, 7 &amp; 9-- Flowdown of Terms &amp; Conditions.</u> Contractor agrees to include in subcontracts that which are not exempt under paragraph 5 of the Certification and Agreement written terms and conditions.</p>		
<p>a. Randomly select from the contractor's records, the names of subcontractors from which significant purchases were made.</p>		
<p>b. Determine if subcontracts are exempt from flowdown of terms and conditions. The following subcontracts qualify for an exemption from the flowdown of terms and conditions evaluated in steps c., d. and e. below:</p> <ul style="list-style-type: none"> <li>• subcontracts equal to or less than \$100,000 in value.</li> <li>• all subcontracts if the foreign Government awarded the purchase agreement to the contractor on a competitive lowest responsive bid or best bid/best value basis.</li> <li>• subcontracts for common hardware and/or raw materials</li> <li>• subcontracts for commercially available U. S. off-the-shelf items</li> <li>• subcontracts issued and effective prior to date of the Purchase Agreement.</li> </ul>		
<p>c. Determine if these subcontracts include a clause that authorizes representatives of USG to examine the subcontractor’s books and records for a period of three years after final payment to the contractor.</p>		
<p>d. For the subcontracts selected, determine if the contractor Contractor obtained written compliance from its first and second tier subcontractors to the certification signed by the contractor Contractor.</p>		
<p>e. Review the terms and conditions of these purchase orders and subcontracts to determine if they include the acknowledgment that USG funds are used for financing.</p>		

## Master Document Audit Program

<p>f. Determine if these subcontracts included the statement that no bribes, rebates, gifts, kickbacks or gratuities were used to secure the contract or subcontract or obtain favorable treatment under such agreements.</p>	
<p>g. Summarize the results of the evaluation.</p>	
<p>2. <u>Elements 8 &amp; 13 -- Commissions &amp; Other Contingent Fees.</u> Contractor certifies that no bribes, rebates, gifts, kickbacks or gratuities, which were intended to secure the Purchase Agreement, have been or will be directly or indirectly offered or given, contrary to U.S. law or regulation.</p>	
<p>a. Request a schedule from the contractor to show the names and amount(s) paid for commissions or other contingent fees to agent(s), broker(s), employee(s), consultant(s) or other recipient(s) for the contract.</p>	
<p>b. Compare the amount(s) obtained in 2.a. above with the information in the certification agreement and determine if the contractor is in compliance.</p>	
<p>c. Review the terms and conditions of the agreements/contracts between the contractor and recipient(s) named in the certification agreement. Determine if the amount paid to date, plus due to be paid through completion of the contract, will result in noncompliance.</p>	
<p>d. Request the contractor to provide the names and amount(s) paid to any other agent(s), broker(s), consultant(s), employee(s), or recipient(s) used to market and/or sell the company's products in the buyer's country. Review the terms and conditions of their agreements and determine if the amount(s) should be included in the schedule for 2.a. above.</p>	
<p>e. Where applicable, request the contractor to furnish the cost for maintaining a sales office in the buyer's country. Evaluate the expenses and determine if any amount(s) should be included in the cost schedule from 2.a. above.</p>	
<p>f. Review the FAO's incurred cost audit files for the contractor and determine if audit data and information (i.e. broker/sales agent(s) commission(s), consultant(s) fees, and employee(s) bonuses) corroborates the contractor's data and information furnished for 2.d. and e. above.</p>	
<p>g. While applying the procedures above (2.b. through f.) determine if any costs that are not charged direct to the contract were erroneously charged to flexibly-priced USG contracts.</p>	
<p>h. Determine if the subcontracts selected under step 1a. included a</p>	

## Master Document Audit Program

<p>clause that requires the subcontractors to provide the disclosures and certifications set forth in Element 13.c. of the Contractor's Certification and Agreement.</p>	
<p>i. Summarize the results of the evaluation.</p>	
<p>3. <u>Elements 11 &amp; 12 -- Foreign Content.</u> Contractor certifies that the material or components to be provided under the Purchase Agreement are manufactured and assembled in the U.S., purchased from U.S. firms, and composed of U.S. origin components. Agrees that, if DSCA approves financing of the dollar value of non-U.S. origin components or services stated in the certification, or a specified dollar value of non-U.S. origin content, this value will not be exceeded. The value of raw materials and common hardware items which are procured by a manufacturer from both U.S. and foreign sources and which are not ordinarily segregated by origin, and which are incorporated on an interchangeable basis into the contractor's products, the actual dollar value need not be identified. Instead, a non-U.S. content estimating methodology or system (for example, an annual survey) may be used by the contractor. The use of such a methodology must be approved by DSCA prior to DSCA processing the contract.</p>	
<p>a. Request a schedule from the contractor that shows by supplier(s) [including affiliate(s), segment(s) and/or joint venture(s)] the dollar value for non-U.S. origin components or services and non-U.S. manufactured items and components procured and known or expected to be procured through the time of completion of the contract.</p>	
<p>b. Compare the dollar value for non-U.S. procurements with the amount noted in the certification agreement and determine if the contractor is in compliance.</p>	
<p>c. Selectively evaluate the terms and conditions in subcontract(s), purchase order(s), and other agreements/arrangements for foreign suppliers. Verify that the amount for actual plus scheduled purchases, if any, agrees with the contractor's information provided for non-U.S. procurements.</p>	
<p>d. Randomly select for evaluation from appropriate contractor records, subcontractors' and vendors' invoices or billings along with the corresponding bills of lading, and receiving reports.</p>	
<p>e. Determine if the incoming shipments were made from domestic or foreign manufacturers.</p>	
<p>f. Verify the names for shipments made from foreign manufacturers with the contractor's information.</p>	
<p>g. Evaluate contract freight-in costs not evaluated in 3.d. above.</p>	

## Master Document Audit Program

Randomly select freight billings and determine if any are for foreign suppliers other than those identified in 3.a. above.	
h. Determine if the contractor maintains a qualified vendor list (QVL). Selectively compare the names of the suppliers for the performance of the contract with the names on the QVL. If significant purchases were made from suppliers that are not listed on the QVL, get an explanation from the contractor.	
i. Review the contractor's documentation for evaluating, screening and selecting the vendors.	
j. Verify through Dun & Bradstreet or a similar reference that the vendor is a domestic manufacturer (not distributor).	
k. Verify that the vendor is not debarred from doing business with the Government by checking the applicable websites. The applicable website for the General Services Administration list is <a href="http://epls.arnet.gov">http://epls.arnet.gov</a> ; the Commerce list is <a href="http://www.bxa.doc.gov/dpl/default.shtm">http://www.bxa.doc.gov/dpl/default.shtm</a> List is <a href="http://www.pmdtc.org/debar059.htm">http://www.pmdtc.org/debar059.htm</a> ; and the State Department list is <a href="http://www.pmdtc.org/debar059.htm">http://www.pmdtc.org/debar059.htm</a> .	
l. If a satisfactory determination cannot be made for the origin of components and services from the procedures applied above, consider requesting assistance from the FAO cognizant of the subcontractor, if possible. Our right of access or right to information may be very limited.	
m. Summarize the results of the evaluation.	
4. <u>Element 14 -- Down Payments.</u> -- Contractor agrees to identify the full amount of any advance payment received under the Purchase Agreement in its accounting records as a down payment, to apply these funds solely to the performance of obligations under this Purchase Agreement, and to provide a clear audit trail on the use of these funds.	
a. Determine from DSCA's contract files the purchase order implementation date between the contractor and buyer (foreign Government). Evaluate the contractor's recorded costs, if any, incurred prior to the purchase agreement implementation date.	
b. Evaluate the contractor's method for recording the amount received for the initial or down payment invoice. Advance payment is not to exceed 15 percent of contract price. Determine if the total amount received was applied toward performance of the contract. There is no requirement to deposit advances in a special account (except in rare cases when directed by DSCA due to a weak financial condition). The advance payment should be recorded in the accounting records as a liability, related to the	

**Master Document Audit Program**

specific contract. To provide an audit trail, the advance payment liability should be liquidated against costs incurred on the contract, and/or against revenue recognized on the contract.	
c. Selectively evaluate the contractor's subsequent billings and determine if they were made as prescribed in the contract.	
d. Summarize the results of the evaluation.	
5. <u>Element 15 -- Export Transportation.</u> -- Agrees that export transportation costs financed under terms of the Purchase Agreement will be paid only to steamship, barge, tug, and airline companies of United States registry.	
a. Determine from DSCA's contract files whether export transportation costs for deliverable contract items are borne by the contractor or buyer (foreign Government).	
b. If export transportation costs are borne by the contractor:	
(1) Request from the contractor the name(s) of the transporting carrier(s), the country in which the carrier(s) is registered, and the amount paid to date.	
(2) If the contractor uses freight forwarder(s) to manage exports, obtain their name(s) and the amount(s) paid to date. Evaluate the freight forwarder(s) billing documentation and determine that the contract items were not exported by non-U.S. registered carriers.	
(3) Randomly select and review sales shipping lists (or packing sheets) for contract deliveries. Note the name of the carrier(s) and determine that export transportation was not furnished by non-U.S. registered carrier(s).	
c. Summarize the results of the evaluation.	
6. <u>Element 16 -- Travel Costs</u> -- Contractor certifies that the cost of travel, per diem, accommodations, lodging, car rental, personal expenses, entertainment, or other similar expenses (except the reasonable cost of business meals) incurred by or on behalf of the purchaser's personnel relating in any way to this contract will be paid by the purchaser, and that these costs will not be financed, in whole or in part, with funds received from the U.S. Government under the Purchase Agreement either directly or indirectly.	
a. Evaluate contract costs for travel, per diem, accommodations, car rental, personal expenses and entertainment and verify that none are for the foreign purchaser's personnel [neither for casual visit(s) nor training under the contract].	
b. Evaluate the FAO's incurred cost audit files for the contractor and determine that there are no travel expense exceptions that pertain to foreign Government personnel.	

## Master Document Audit Program

c. Summarize the results of the evaluation.	
7. <u>Element 19 -- Penalty, Refund, &amp; Other Reimbursement.</u> Contractor agrees that any penalty payment, refund, or other reimbursement due to the purchaser pursuant to the Purchase Agreement will be paid to the U.S. Government for credit to the FMS trust fund account of the purchaser.	
a. Evaluate the contractor's transaction(s) recorded for penalty payments, refunds, or other reimbursement made to the foreign Government, and determine that the amounts are credited to purchaser's account.	
b. Summarize the results of the evaluation.	

<b>A-1</b>	<b>Concluding Steps</b>	<b>WP Reference</b>
	Version No. 3.0, dated April 2004	
	1. Summarize results of applying the agreed-upon procedures.	
	2. Complete the index and cross-reference the working papers.	
	3. Discuss results with supervisor. Coordinate significant or unusual issues with DSCA. Coordination should be both before and after discussion with the contractor.	
	4. Prepare (for follow-up) audit lead sheets for disclosure of commercial contract costs erroneously charged to indirect accounts that will eventually be allocated to U.S. Government flexibly priced contracts.	
	5. Hold an exit conference with the contractor in accordance with CAM 4-304. Discuss each exception with the contractor and request a response for inclusion in the report.	
	6. For DCMA requested evaluations, obtain a written release statement from the contractor for release of the report to the foreign Government. Include the release statement as an attachment to the report.	
	7. If the evaluation discloses information that raises suspicion of fraud or other illegal acts, refer the matter by completing DCAA Form 2000 (see CAM 4-702).	
	8. Prepare the agreed-upon procedures report. For evaluations requested by DCMA that have findings of noncompliance, include DSCA on distribution. Tailor the report to comply with the contractor's release restrictions, as applicable.	
	9. Closing actions should be performed in accordance with FAO	

## Master Document Audit Program

<p>procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:</p>	
<p>a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.</p>	
<p>b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.</p>	
<p>c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.</p>	
<p>d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.</p>	
<p>e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming</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>	

## Master Document Audit Program

<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>	
<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>	