

MASTER AUDIT PROGRAM

| | |
|-------------------------------------|---|
| Activity Code 11070 | Compliance with DFARS 252.242-7006 Accounting System Administration Requirements Audit |
| B-01 Planning Considerations | Version 2.0, dated July 2020 |

Audit Specific Independence Determination

Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment.

(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this working paper. For example, an FAO may add additional auditors (e.g., technical specialist) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)

Purpose and Scope

The compliance with DFARS 252.242.7006, Accounting System Administration requirements audit is conducted to examine contractor compliance with the system criteria as prescribed in section (c), System Criteria. As a part of the examination, auditors will:

- Obtain an understanding of the contractor's compliance with DFARS 252.242-7006(c);
- Determine if the contractor is compliant with the accounting system criteria prescribed in DFARS 252.242-7006(c); and
- Report both significant deficiencies and less severe significant deficiencies in compliance with the DFARS criteria.

Other Audit Considerations

DFARS ACCOUNTING SYSTEM DFARS 252.242.7006(a)(2)

“Accounting system” means the contractor's system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.”

CONTRACTORS

To opine on compliance with DFARS 252.242-7006(c) criteria; **all 18 criteria** must be examined. This program can be used for all contractor accounting system audits. The audit procedures applied to each DFARS criteria should be discussed by the audit team and tailored as applicable for your contractor/location based upon the size and complexity of the contractor.

MASTER AUDIT PROGRAM

Other Audit Considerations

If the entity is a Non-profit, Federally Funded Research and Development Center (FFRDC) (excluding those operated by Educational Institutions), or State and Local Government, the auditor should modify the program below to include specific procedures in accordance with the 2 CFR 200 applicable to that entity. The auditor should coordinate with the cognizant agency to determine the need for the audit.

SIZE AND COMPLEXITY

The size and complexity of companies and its processes, operations, and accounting system capabilities vary. Therefore, auditors should tailor (add, line-out, or modify) the audit steps in this program as necessary based on their understanding of the contractor's processes, related internal controls, and the risk identified in the risk assessment.

INTERNAL CONTROL

- Obtain and document an understanding of the contractor's control environment as it relates to the contractor's attitudes, behaviors, and actions toward ensuring compliance with applicable laws and regulations, that accounting data is reliable, risk of misallocations and mischarges are minimized and contract allocations and charges are consistent with billing procedures. In obtaining an understanding of the entity's control environment, the auditor should consider the control environment elements (i.e., integrity and ethical values, commitment to competence, management's philosophy and operating style, organizational structure, assignment of authority and responsibility, human resource policies and procedures and participation of those charged with governance) and how those elements are incorporated into the contractor's processes and contribute to a sound control environment.
- The auditing standards require auditors obtain a sufficient understanding of internal control that is material to the subject matter in order to plan the audit, assess control risk, and design procedures to achieve the objectives of the audit (i.e., to identify potential questioned costs, inadequacies or noncompliances with the established criteria (FAR, CAS, contract terms, or other criteria depending on the type of audit) and to design appropriate audit procedures to meet the objectives of the audit). Inquiry alone is not sufficient to obtaining this understanding. In addition to making inquiries, procedures to obtain an understanding of the accounting system include activities such observing the application of controls, inspecting documents and reports, and performing walkthroughs of the system, such as tracing transactions through the various processing steps.

CONTRACTS THAT DO NOT HAVE THE DFARS 252.242-7006, CLAUSE:

Contractors that do not have DoD contracts (i.e., contractors that are 100 percent reimbursable) are not contractually required to comply with the DFARS criteria. Nevertheless, the DFARS criteria are suitable standards to use in determining the acceptability of any Government contractor's system for the accumulation and billing of cost under Government contracts.

If this audit program is used for contractors that have only non-DoD contracts, the language in the audit report shell will need to be tailored accordingly. FAOs needing assistance in tailoring the audit report should coordinate with the regional/CAD technical programs division and Headquarters PAS.

MASTER AUDIT PROGRAM

| |
|--|
| Other Audit Considerations |
| DFARS and GAGAS REPORTING REQUIREMENTS |
| <ul style="list-style-type: none">• DFARS 252.242.7004(a) (1), requires the auditor to report significant deficiencies. This means a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes.• GAGAS 7.42 requires auditors to report all deficiencies in internal control that are significant deficiencies or material weaknesses, as defined in the AICPA auditing standards definitions.• Deficiencies in compliance with the DFARS criteria that are less severe significant deficiencies, will be included as a separate Exhibit to the audit report.• Appropriate language and presentation are included in the MMAS audit report shell.• The audit team should discuss the audit program steps and tailor as applicable (i.e., size, complexity, operations, etc.), for the contractor being examined. <p>If the entity is a Non-profit, Federally Funded Research and Development Center (FFRDC) (excluding those operated by Educational Institutions), or State and Local Government, the auditor should modify the risk assessment to include specific procedures in accordance with the OMB Circulars applicable to that entity.</p> TIMELY COMMUNICATION OF SIGNIFICANT DEFICIENCIES and MATERIAL WEAKNESSES <p>Timely communication of significant deficiencies in compliance with the DFARS criteria to those charged with governance is essential to correcting internal control deficiencies. After discussion with your supervisor, it may be determined that a system deficiency report should be issued on a real-time basis, prior to completion of the audit. In those cases, a separate assignment should be set up using the System Deficiency Report activity code 11090. Establishment of this assignment should not occur until there is sufficient evidence that a significant deficiency or material weakness exists and the audit team has fully developed the elements of a finding for the deficiency (see CAM Chapter 10). Whether to issue a deficiency report during the course of the audit is a matter of professional judgment, depending on the specific circumstances.</p> Understand Audit Criteria: Prior to commencing the audit; review Agency guidance that may impact the audit and adjust the scope and audit procedures appropriately. |

| |
|--|
| REFERENCES |
| 1. DFARS Subpart 242.7503, Contract Clause |
| 2. DFARS 252.242-7006, Accounting System Administration |
| 3. FAR 52.203-13, Contractor Code of Business Ethics and Conduct |
| 4. FAR 52.203-14, Display of Hotline Poster(s) |
| 5. FAR 52.232-20, "Limitation of Cost;" FAR 52.232-22(b), "Limitation of Funds." |
| 6. FAR 52.216-7, Allowable Cost and Payment |

MASTER AUDIT PROGRAM

| REFERENCES |
|--|
| 7. FAR Subpart 32.10 Performance Based Payments |
| 8. CAM 10-200 Audit Report Formats and Contents |
| 9. CAM 10-211 SOCAR |
| 10. CAM 14-303f, Trend Analysis of Key Financial Statement Elements |
| 11. CAM 5-100, Obtaining an Understanding of a Contractor's Internal Controls and Assessing Control Risk for Contractor Business Systems |
| 12. CAM 5-300, Audit of Contractor Compliance with DFARS 252.242-7006, Accounting System |
| 13. CAM 8, Cost Accounting Standards |
| 14. AT-C Section 315 Compliance Attestation |

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|--|--------------|
| Version 2.0, dated July 2020 | |
| <p>1. The audit will report on the contractor's compliance with the DFARS accounting system criteria <u>for a specified period of time</u>, and consistent with the attestation reporting standards. The audit should be planned and transactions selected accordingly. The elapsed time between transaction testing and the issuance of the report should be as short as possible to ensure the transaction testing period is current.</p> | |
| <p>2. Coordinate with the Contracting Officer:</p> <ul style="list-style-type: none"> a. When applicable, review the audit request and identify matters of particular interest to acquisition officials. Contact the contracting officer (CO) or requestor, to clarify any concerns with the audit request and adjust the audit scope accordingly. b. For requested or self-initiated audits, discuss and obtain the CO's concerns related to the contractor's accounting system and compliance with the 18 DFARS criteria (e.g., billing and general control concerns). The results of this coordination should be documented and considered during audit planning. Since COs have a significant interest in Business System Audits, the audit team should keep the CO informed throughout the audit. <p><i>Note: If the contractor is not contractually required to comply with the DFARS criteria because it does not have DoD contracts (i.e., contractors that are 100 percent reimbursable), discuss and seek agreement with the cognizant contracting officer that the DFARS criteria are suitable standards to use in determining the acceptability of any Government contractor's system for the accumulation and billing of cost under Government contracts.</i></p> | |
| <p>3. Obtain billing information from ACO:</p> | |
| <ul style="list-style-type: none"> a. Obtain a list of contract debts for which payment was collected from the contractor over the prior 12 months. (These lists will be used in section D of the audit program.) b. Obtain a list of demand letters issued to the contractor for which payment is currently outstanding (regardless of when the demand letter was issued). (These lists will be used in section D of the audit program.) | |

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|---|--------------|
| <p>4. Provide your RS/CAD, Regional RST or Field Detachment focal point with the contractor's DUNS codes and CAGE codes and request the focal point to obtain the following information for the prior 12 month period from DFAS, if available:</p> <ul style="list-style-type: none"> • Billings rejected by DFAS/other paying offices and the reason the billing was rejected. • Demand letters issued by DFAS/other paying offices to the contractor for which payment is currently outstanding (regardless of when the demand letter was issued). (This list will be used in section D of the audit program). • Payments collected in response to demand letters or other refunds from the contractor processed by DFAS over the prior 12 months. (This list will be used in section D of the audit program). | |
| <p>5. Assistance may be required from DCAA offices located at other contractor segment locations (e.g., CAD, Corporate offices, FD) in cases where the contractor accounting systems disseminates information through multiple-segments. The FAO cognizant of the contractor segment responsible for the design and maintenance of the shared system should coordinate with other cognizant FAOs to determine the extent of common or shared aspects of the accounting system that require audit procedures to comply with the DFARS criteria.</p> <p><i>Note: FAOs cognizant of off-site locations should not self-initiate audits of DFARS compliance accounting system audits.</i></p> | |
| <p>6. Notify the appropriate contracting officer of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement once the risk assessment is completed. The acknowledgement process should be performed in accordance with CAM 4-104.</p> | |
| <p>7. Hold a planning meeting with the contractor to provide notification of the upcoming audit, inquire about the locations of the accounting departments to determine if coordination with other DCAA offices is necessary, to schedule the entrance conference, and to request the contractor prepare a general overview of its accounting system and subsystems for presentation at the entrance conference.</p> | |

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|--|--------------|
| <p>Clarify expectations of the upcoming system demonstrations and provide the template, Description of System and Controls Designed to comply with DFARS 252.242-7006, on which the process owners can begin describing the process flow and controls designed to achieve compliance with the applicable DFARS requirements. This template will serve as the start of the documented mutual understanding of the system and should be provided to the audit team prior to the system demonstrations to allow for necessary auditor revisions during and after the demonstrations. If the template can be provided 4 to 6 weeks ahead of the start of the audit that would be ideal. This allows for the audit team to become familiar with their assigned areas and identify potential risks areas if advance of the start of the audit.</p> <p><i>Note: Auditors must expand on the template completed by the contractor with their own understanding. This will need to be taken into consideration throughout the audit as actual contractor procedures may differ than what is explained/provided during the system demonstration.</i></p> | |
| <p>8. Issue Contractor Notification: Issue a notification letter to the contractor in accordance with CAM 4-302.3. Request a walkthrough of the accounting system and subsystems for the entrance conference.</p> <p><i>Note: The DFARS Accounting System Compliance Audit Information Request included with the notification letter provides additional information regarding what the contractor should walkthrough/demonstrate for each area.</i></p> | |
| <p>9. Review permanent file to determine if previous audits included findings and recommendations that relate to the subject matter. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures:</p> <ol style="list-style-type: none"> a. Ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions. (GAGAS 7.13) b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. | |

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|---|--------------|
| <p>10. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit. These may have been obtained at the annual program planning meeting or through other methods established between the contractor and FAO. If there are no other studies or audits, document that information in the working papers and perform the procedures below.</p> <p>a. During the entrance conference:</p> <ul style="list-style-type: none">• Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the effectiveness of the internal controls relevant to the subject matter of the audit. <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none">• Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment.• Document the results of the determination in writing. <p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none">• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).• Make appropriate adjustments to your risk assessment and planned procedures based on reported findings. <p>d. Document the results of the inquiries including the response received from the contractor for any request for access to internal audit reports. (If access was not granted this should include the contractor's rationale or justification for not granting access).</p> <p>e. Determine if additional audit procedures are needed to address any identified risk.</p> | |

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|---|--------------|
| <p>11. Other Permanent File Considerations:</p> <ul style="list-style-type: none"> a. Document, if applicable, any CAS noncompliances, advanced agreements, special allocations, etc. that may impact the accounting processes and internal control related to compliance with the DFARS criteria. b. Document, if applicable, any audit leads impacting this assignment and fraud referrals which have been made or are in process. c. Document any previous business system audit (i.e., accounting, estimating, etc.) that may impact the accounting processes and internal control related to compliance with the DFARS criteria. | |
| <ul style="list-style-type: none"> d. Review and document other relevant information to include environmental factors, the nature of the entity, and changes from the prior period. This information may be available in the contractor's annual Form 10-K report, quarterly Form 10-Q report, Interim Form 8-K reports (if applicable - to cover special material events that occur between 10-K and 10-Q filings), and its annual report to shareholders. | |
| <p>12. Contract Type Considerations:</p> <ul style="list-style-type: none"> a. Determine the amount of Government contracts by contract type. (Include DoD Commercial Time and Material (T&M) and Labor Hour (LH) contracts). b. Determine if significant fixed price contract effort with progress payment provisions is identified. c. Determine if significant performance-based payment contract effort is identified. <p><i>Note: This information is used to identify potential risk associated with contract types (e.g., labor or material being transferred to or from underrun/overrun contracts, overall monetary materiality risk by contract type.)</i></p> | |

MASTER AUDIT PROGRAM

13. Conduct and document the results of the entrance conference (CAM 4-302). The entrance conference should include the following:
- a. Based on the Contractor Notification Letter previously sent, review the documentation provided and respond to any questions the contractor has on the data requested.
 - b. Discuss the purpose of the audit and expectations such as the accounting system demonstration requirements, the level of detail that should be covered in the demonstrations, who should participate in the meetings, the length and location of the meetings, and other pertinent information.
 - c. Have the contractor discuss its process for refunding overbillings/overpayments by the government.
 - d. Have the contractor provide a general overview of its control environment.
 - e. Have the contractor provide a general overview of its manual and computerized accounting system and processes including its subsystems. (i.e., indirect and other direct costs, compensation, billing, labor, and general information technology, etc.).
 - f. Have contractor provide overview of IT Organization Structure to demonstrate its ability to act independently. For example, the overview should fully discuss IT management and organization (e.g., centralized or decentralized, shared services, business unit, geographical organization, etc.).
 - g. Have contractor provide overview of computer operations to include computer processes and control points for system integrity and reliability of all activities impacting the system's physical operations.
 - h. Have the contractor provide an overview of the ERP Data Flow Architecture (process map). The presentation should include descriptions of all ERP modules, submodules, subsystems, other applications, databases, external data warehousing system, interface tables, etc., and controls, processes and interface tools for ensuring integration. If Legacy environments exist, include index of modifications contained within system documentation record.
 - i. Have the contractor demonstrate all third party IT service providers, type services, and the controls and processes for monitoring performance. Obtain IT service providers' contract agreements and service level agreements covering the roles and responsibilities, expected deliverables and policy and procedures for monitoring third party IT service providers.

Note - If mainframe environment supports contractor's IT environments, please contact HQ OTS IT Audit Team for additional guidance.

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|--|--------------|
| <p>g. Have the contractor demonstrate the security techniques and related management procedures (e.g., network topography, to include identification of firewalls, security appliances, gateways, DMZs, network segmentation, intrusion detection, etc., and the identification and location of hardware and software) to authorize access and control information flows from and to networks that provide assurance of processing and data integrity associated with the contractor's accumulation, processing, recording and reporting of Government costs.</p> <p>h. Have the contractor demonstrate controls and processes for monitoring IT security implementation, infrastructure and related events for prevention, detection and timely reporting of unusual and/or abnormal activities and maintaining logs to enable the reconstruction, review and examination of the time sequences of operations and the other activities surrounding or supporting operations.</p> <p>m. Have the contractor provide overview of logical security controls for protection of computer resources against unauthorized use, modification, damage or loss, user levels are controlled and identified, logical access restrictions are controlled by passwords and logical access is recorded and monitored). Overview should include process for establishing, restricting and reviewing roles/group profiles for appropriateness.</p> <p>n. Have contractor provide policies and procedures for process of software acquisition, development, and modification for maintaining data integrity.</p> <p>o. Set up the dates for demonstrations on the key system processes to be held within two weeks of the entrance conference.</p> <p>p. If applicable address previous DCAA audit findings and recommendations and corrective actions that address previous DCAA audit findings.</p> <p>q. If applicable, follow up with contractor management regarding other studies or audits (e.g., internal auditors, consultants, Independent Public Accountants) that impact the subject matter under audit. <i>Note: The cognizant contracting officer should be invited to the entrance conference and system demonstrations.</i></p> | |

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|---|--------------|
| <p>14. Attend Contractor System Demonstrations and Document an Understanding of the Contractor's Accounting System and Subsystems. The purpose of the contractor demonstrations is to obtain and document an understanding of the contractor's control environment, accounting system and subsystems, operational processes, and related internal controls relevant to compliance with the DFARS criteria. For efficiency, use the template completed by each process owner and revise it with your own understanding during and after the demonstrations until it reflects the actual process. Ask questions during the demonstrations, including whether control overrides occur, and if so, whether a documentation trail is maintained.</p> <p><u>Inquiry alone is not sufficient to obtain an understanding of the contractor's internal controls.</u> Procedures to obtain an understanding of accounting system internal controls include inquiries of contractor personnel, observing the application of specific controls, inspecting documents and reports, and performing walkthroughs of the system (including tracing transactions through the various processing steps).</p> | |
| <p>15. Obtain and document an understanding of the contractor's internal controls (i.e., both manual and computerized system controls) required for compliance with the DFARS accounting system criteria. This information should be obtained during the walkthrough. If there are multiple contractor locations, the understanding of the internal controls relevant to the DFARS criteria at those locations must also be documented and considered in the risk assessment. Areas of risk identified should be documented, and the necessary audit procedures to address those risk areas (manual or computerized) should be performed during the fieldwork.</p> | |
| <p>16. Document the audit work planned in this assignment to determine if the evidential matter obtained during the audit generated from computerized information systems is reliable. Document the determination where the work is performed in this assignment; including a statement of why the computerized data can or cannot be relied upon.</p> | |
| <p>17. Document all risk areas the audit team identified during the entrance conference or contractor demonstrations.</p> | |
| <p>18. Finalize/Summarize the understanding of the accounting system and subsystems including the IT environment will complete the accomplishment of the first objective of the audit. Accurate understanding is critical because the documented understanding will serve as a basis to plan the audit, to identify types of potential noncompliances, to consider factors that affect the risk of material noncompliances, and to design audit procedures to test contractor compliance with DFARS 252.242-7006 criteria.</p> | |

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|--|--------------|
| <p>a. Using the information obtained during the entrance conference and system demonstration, finalize and document your understanding of the contractor's accounting system and subsystems, and cross reference it to detailed descriptions and information obtained and documented during the contractor's demonstrations (e.g., flowcharts, policies and procedures, desk procedures, screenshots, etc.). The documented understanding should address each of the 18 DFARS criteria as well as the five internal control components identified below.</p> | |
| <p>(1) Control Environment – This information was requested from the contractor in Item 7a, of the DFARS Accounting System Compliance Audit Information Request, included with the Contractor Notification Letter. (Note: The control environment is part of the DFARS 252.242.7006(c)(1) criteria.)</p> | |
| <p>(2) Contractor's Risk Assessment–This information was requested from the contractor in Item 9, of the DFARS Accounting System Compliance Audit Information Request, included with the Contractor Notification Letter.</p> | |
| <p>(3) Contractor Monitoring - This information was requested from the contractor in Item 10, of the DFARS Accounting System Compliance Audit Information Request, included with the Contractor Notification Letter. (Note: Management Review or internal audits of the system Periodic monitoring is also one of the DFARS 252.242.7006(c)(8) criteria.)</p> | |
| <p>(4) Information System and Communication – This information was requested from the contractor in Item 11, of the DFARS Accounting System Compliance Audit Information Request, included with the Contractor Notification Letter.</p> | |
| <p>(5) Control Activities – The control activities are generally those processes the contractor uses to ensure compliance with each of the DFARS 252.242-7006 criteria. This information was requested from the contractor in Item 7, of the DFARS Accounting System Compliance Audit Information Request, included with the Contractor Notification Letter.</p> | |
| <p>b. Prepare a high-level summary of your understanding contractor's accounting system and subsystems including the IT environment to provide to the contractor for confirmation of accuracy. After the detailed and summary understanding of the contractor's accounting system and subsystems have been documented and reviewed by your supervisor, provide the summary to the contractor and obtain written confirmation from the contractor that the understanding is accurate.</p> | |

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|---|--------------|
| <p>c. Summarize the high risk areas identified during the demonstrations and other preliminary steps to be addressed during the audit team discussion. Additionally, be sure to document those areas that are not significant and are not considered high risk.</p> | |
| <p>19. Consider the need for specialist assistance, assistance of auditors with specialized skills, and assist audits, if any, and document in your working papers.</p> | |
| <p>20. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <ul style="list-style-type: none"> a. Their knowledge of any actual, suspected, or alleged fraud or noncompliance with laws and regulations affecting the period of time corresponding to the subject matter under audit. (AT-C 205.32) b. Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject matter. (GAGAS 7.14) c. The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13) <p><i>Note: Specifically document in the working papers; the inquiries and the corresponding responses as well as how the responses affect the performance of the engagement.</i></p> | |
| <p>21. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential material noncompliances, whether due to error or fraud, that could affect the subject matter.</p> | |

MASTER AUDIT PROGRAM

| B-1 Preliminary Steps | WP Reference |
|--|--------------|
| <p>The discussion should include:</p> <ul style="list-style-type: none"> • relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), • relevant aspects of the contractor and its environment, • risk of material noncompliance due to fraud (e.g., the extent of financial incentives, pressures to meet budget or contractual commitments, and opportunities to commit and conceal fraud). Consider the DoD IG website Fraud Detection Resources for Auditors for common fraud risk factors. Copy link and paste into web browser, • other factors identified that increase the risk of material noncompliance with laws and regulations, and • the audit team’s understanding of relevant key internal controls. Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect the subject matter, and design audit procedures to respond to the increased risk of material noncompliance. <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of material misstatement and noncompliance due to error or fraud.</p> | |
| <p>22. Using the information obtained in the above steps, prepare the risk assessment to plan the scope of the audit.</p> <p><i>Note: As with all audits, we can focus audit scope on areas presenting significant risk. Audit teams are empowered to modify the planned tests of controls based on risk, including the empowerment to not plan tests of controls on areas that exhibit little risk of a significant deficiency (low materiality, sound control design, etc.).</i></p> | |
| <p>23. After risk assessment is complete, hold an in-person meeting with the Contracting Officer and other key stakeholders. Discuss the risks identified and briefly outline the planned procedures to address the risks, placing emphasis on the set of procedures designed to address the risks identified by the contracting officer.</p> | |

MASTER AUDIT PROGRAM

| C-1 Control Environment, Accounting Framework, Organizational Structure Compliance with DFARS 252.242-7006(c)(1), Accounting System Criteria | WP Reference |
|--|---------------------|
| Version 2.0, dated July 2020 | |
| To determine if contractor’s accounting system complies with certain DFARS 252.242-7006(c)(1). In some instances, the auditor may use the same sample to test multiple criteria. If auditors use this method, auditors need to ensure the sample is sufficient to cover all requirements being tested. | |
| <i>Note: Consider the size and complexity of the company’s processes, operations, and accounting system. Tailor (add, line-out, or modify) the audit steps based upon your understanding of the contractor’s processes, related internal controls and the risk identified in the risk assessment.</i> | |
| 1. Communication and Enforcement of Integrity and Ethical Values. | |
| a. Contractor Code of Business Ethics and Conduct – Verify the contractor has procedures to address the requirements in FAR 52.203-13(b), Code of Business Ethics and Conduct. | |
| b. Business Ethics Awareness and Compliance Program - Verify the contractor has procedures to address the requirements in FAR 52.20313(c), Business Ethics Awareness and Compliance Program and Internal Control System and FAR 52.203-14, Display of Hotline Poster(s). | |
| 2. Management’s philosophy and operating style, commitment to competence, and human resource policies and procedures. | |
| <p>a. Determine if there has been excessive turnover of management or supervisory personnel in key functions, such as operations and program management, accounting, or internal audit, etc. Request a listing of management or supervisory personnel in those areas that have either retired, quit, or been terminated.</p> <p>b. If the turnover appears to be excessive, obtain from the contractor an explanation of the reason for management or supervisory personnel leaving the organization. Discuss any areas of concerns with the audit team and develop additional audit procedures as needed.</p> | |

MASTER AUDIT PROGRAM

| C-1 Control Environment, Accounting Framework, Organizational Structure Compliance with DFARS 252.242-7006(c)(1), Accounting System Criteria | WP Reference |
|--|---------------------|
| <p>3. Commitment to Competence and Human Resource Policies and Procedures: Determine whether the contractor’s practices and procedures related to human resources and commitment to competence contribute to a sound control environment that also includes the applicable IT functional elements (e.g., that they have processes for ensuring business systems are supported and maintained by employees who are qualified, competent, and adequately trained and that employees are aware of their roles and responsibilities and the importance of complying with applicable laws and regulations; reporting reliable accounting data; ensuring risk of misallocations and mischarges are minimized and contract allocations and charges are consistent with billing).</p> | |
| <p>a. Auditors may have obtained sufficient evidence through a combination of inquiries and other risk assessment procedures (e.g., observation and inspection of documents) at the entrance conference and system demonstrations regarding these area (see item 7b, 7c, and 7d of the DFARS Accounting System Compliance Audit Information Request included with the announcement letter and through consideration of the results related to other areas covered in this audit program (e.g., ethics).</p> | |
| <p>b. The auditor should reference in this section the working paper that documents sufficient evidence or add audit steps in this section to obtain the necessary evidence.</p> | |
| <p>4. Organizational Structure/Assignment of Authority and Responsibility:</p> | |
| <p>a. Verify that policies and procedures exist which specifically state the limitation or delegation of authority.</p> <p>b. Verify that there is a clear assignment of responsibility and delegation of authority to deal with such matters as goals, objectives, operating functions, and regulatory requirements.</p> | |

MASTER AUDIT PROGRAM

| C-1 Control Environment, Accounting Framework, Organizational Structure Compliance with DFARS 252.242-7006(c)(1), Accounting System Criteria | WP Reference |
|---|---------------------|
| <p>5. Participation of those charged with governance:</p> <ul style="list-style-type: none"> a. Obtain a list of Board of Director and Audit Committee members. Determine their relationship to the business and assess their independence. b. Review the minutes of the Board of Directors' meeting and all communications with the Audit Committee or body of similar authority to determine if the Board is taking an active role in significant management decisions. c. Review the minutes of the Audit Committee meetings to determine if the committee (and/or Board of Directors) is acting effectively on all audit matters, including internal and external audit recommendations. d. Verify that the internal audit department is functionally and organizationally independent to achieve objectivity in the conduct of its audits. | |
| <p>6. Summarize results of steps above and evaluate whether the findings result in noncompliances with the DFARS. (DFARS 252.242-7006(c)(1)). Determine if they are significant deficiencies and material weaknesses (may result in an adverse opinion) or are less severe significant deficiencies (may result in a qualified opinion).</p> | |

MASTER AUDIT PROGRAM

| D-1 Billing System Compliance with DFARS 252.242-7006(c)(1), (15i) and (16) System Criteria | WP Reference |
|---|---------------------|
| Version 2.0, dated July 2020 | |
| <p>To determine if contractor billings comply with DFARS 252.242-7006(c)(1), (15i) and/or (16). Use the following steps (expand, line-out, modify as necessary depending on the risk assessment).</p> <p>In some instances, the auditor may use the same sample to test multiple criteria. If so, the auditor needs to ensure the sample is sufficient to cover all requirements being tested.</p> | |
| <p>1. Validate Contractor Personnel Have Accurate Contract Briefs for Billing Cost Type Vouchers.</p> | |
| <p>a. Determine if the contractor prepares contract briefs.</p> | |
| <p>b. Review the FAO permanent file and EDA to validate the Contractor Brief.</p> | |
| <p>c. Determine if the contractor's billing personnel have contract information that is current, accurate and complete as needed to prepare billings that are acceptable for payment in accordance with the DFARS 252.242-7006 (c) (15i) and (16).</p> <p><i>Note: Once the contract briefs are validated this information will be used to validate the contractor cost reimbursement contract briefs to the billed amounts.</i></p> | |
| <p>2. Summarize the universe of billings (the summary assists in identifying focus areas).</p> | |
| <p>3. Selection of Public Vouchers</p> <p>Identify public vouchers to include in the universe to test for compliance with DFARS 252.242-7006(c). Utilize statistical sampling where appropriate. Document your sample plan and justification of the universe. The public vouchers selected will be the starting point of our universe for testing of Direct Materials in Section M, Other Direct Costs in Section O, Labor Accounting in Section E, and General Accounting, as appropriate.</p> | |

MASTER AUDIT PROGRAM

| D-1 Billing System Compliance with DFARS 252.242-7006(c)(1), (15i) and (16) System Criteria | WP Reference |
|---|---------------------|
| <p>4. Limitation of Costs or Funds and Allowable Cost and Payment Clauses:</p> <p>a. Limitation of Cost/Funds. Based on your understanding of the contractors processes/controls to comply with billing requirements of FAR 52.232-20, limitation of costs and FAR 52.232-22, limitation of funds obtained during the risk assessment, test that selected public vouchers to:</p> <ul style="list-style-type: none"> • determine if the contractor has procedures to brief contracts for cost/funding limitations on its billings; • validate the cost/funded limitation amounts shown on the vouchers are monitored and updated on a periodic basis; (Note: FAR 12.207(b)(1) and FAR 52.212-4 Alternate I apply to DoD Commercial T&M/LH contracts.) • verify the total cost billed on the contractor’s invoice (e.g., SF 1034, Public Voucher for Purchases and Services other than Personal) do not exceed the contract terms (i.e., contract brief or the actual contract/modification if more efficient) applicable to the limitation of cost (FAR 52.232-20) or limitation of funds amounts (FAR 52.232-22). | |
| <p>b. Allowable Cost and Payment: Based on your understanding of the contractors processes/controls to comply with the allowable cost and payment clause (FAR 52.216-7) obtained in the risk assessment:</p> <ul style="list-style-type: none"> • determine if contractor has procedures to bill cost in compliance with FAR 52.216-7(a) invoicing, (b) reimbursable costs and (d) final indirect cost rates. This can be accomplished by considering the results of audit procedures applied in D-01, step 1-2a and steps 3-13. • verify that the contractor is current on its submission of incurred cost proposals in accordance with contract terms (FAR 52.216-7 (d)(2)). • determine if the contractor ordinarily paid within 30 days of the contractor’s payment request to the Government. <p><i>Note: The completion of these steps will assist in determining compliance with DFARS 252.242-7006(c)(15)(i) and/or (16). The clause at 52.216-7 applies in conjunction with the clause at 52.232-7, but only to the portion of the contract that provides for reimbursement of materials (as defined in the clause at 52.232-7) at actual cost. Further, the clause at 52.216-7 does not apply to labor hour contracts.</i></p> | |

MASTER AUDIT PROGRAM

| D-1 Billing System Compliance with DFARS 252.242-7006(c)(1), (15i) and (16) System Criteria | WP Reference |
|--|---------------------|
| <p>5. Fixed Fees and Cost Withholds: Test that selected public vouchers contain the appropriate fixed fees/cost withholds by comparing the fixed fees and cost withholds shown on voucher to the contract terms and the applicable FAR 52.216-8, 52.232-7, 52.216-9 and -10. (DFARS 252.2427006(c)(16)).</p> | |
| <p>6. Provisional Billing Rates: Indirect costs are billed at approved rates (or rates specified in the contract) at the time of voucher submission. (CAM 6-7051.d.)</p> <p><i>Note: If the contractor does not have indirect billing and/or bidding rates, obtain a provisional billing rate submission. If the rates have not been approved (FAR 42.704), evaluate the reasonableness of the submitted rates.</i></p> | |
| <p>a. Test selected public vouchers for the period under audit, to determine if the contractor is using current approved provisional billing rates previously established under activity code 15500 (CAM 6-705.1.d. (DFARS 252.242-7006(c)(16))). (Consider alternative audit procedures if a 15500 assignment has not been completed for the current provisional billing rate(s)).</p> | |
| <p>b. If selected voucher(s) include cumulative indirect cost rates billed during a prior fiscal period, determine if prior year cumulative costs billed have been adjusted for final indirect cost rates (FAR 52.216-7(e) & DFARS 252.242-7006(c)(16)).</p> | |
| <p>7. Reconciliation of Current and Cumulative Voucher Amounts:</p> | |
| <p>a. Test that selected public vouchers reconcile to the current and cumulative cost elements billed (i.e., SF 1035 or equivalent information) to the costs booked in the accounting records (e.g., job costs ledger or equivalent, general ledger). (DFARS 252.2427006(c)(16)) to determine if the vouchers reconcile to the books of account.</p> | |
| <p>b. If vouchers include costs from T&M/LH or commercial T&M/LH contracts:</p> <ul style="list-style-type: none"> (1) verify that direct labor hours billed, reconcile to the cost accounting records by labor hours and labor classifications; (2) direct labor was billed at appropriate contract rates; and (3) material costs (if applicable) billed reconcile to the cost ledger. | |
| <p>c. If cost type vouchers were submitted on a DD250 or WAWF validate the DD250 or WAWF was adjusted to reduce the invoice amount for previously paid invoiced amounts to confirm the net invoice amount due was correct.</p> | |

MASTER AUDIT PROGRAM

| D-1 Billing System Compliance with DFARS 252.242-7006(c)(1), (15i) and (16) System Criteria | WP Reference |
|--|---------------------|
| <p>d. If cost type vouchers were submitted via DD 250s or WAWF, verify the DD 250's or WAWF contained a certification from the Quality Assurance Representative (QAR) that the deliverable was acceptable. Note: Review the certificate or determine if Government Inspector signed off in WAWF.</p> <p><i>Note: The completion of these step assist in determining compliance with DFARS 252.242-7006(c)(16).</i></p> | |
| 8. Direct Costs Billed: | |
| <p>a. Test that selected billings include only:</p> <ul style="list-style-type: none"> (1) subcontractor and vendor costs (i.e., direct material, ODC, etc.) that are in accordance with the terms and conditions of the subcontract or invoice; (Testing of direct materials may be included under this step; i.e., tracing to source documents to verify these costs. Combining these steps will satisfy compliance testing of DFARS criteria (3) and/or (16)); (2) ordinarily paid within 30 days of the contractor's payment request to the Government; and (3) direct labor costs that are reimbursable contract costs. (Testing of direct labor may be included under this step; i.e., tracing to source documents to verify these costs. Combining this step will assist in determining compliance with DFARS criteria (3), (9), (10) and/or (16).) (FAR 52.216-7 (b)(1)) (DFARS 252.242-7006(c)(16)). | |
| <p>b. If there are significant T&M/LH contracts based on the risk assessment, verify that the employee (and/or subcontractor, if applicable) direct labor hours assigned to and charged in the direct labor rate classification meet the labor qualification requirements of the contract (FAR 52.2327(a)(3)). (DFARS 252.242-7006(c)(16))</p> | |
| <p>9. Exclusion of Unallowable Cost: Verify unallowable costs are identified and excluded from government contract billings. (e.g., unallowable costs are accumulated and segregated into unallowable cost accounts, etc.) (DFARS 252.242-7006(c)(15)(i))</p> | |
| 10. Subcontract Costs on Prime Contractor Cost Type Vouchers: | |
| <p>a. Validate the prime contractor adequately monitors its subcontractor's accounting and billing systems prior to providing the subcontractor interim financing (FAR 42.202(e)(2)), for selected high risk subcontract cost billed to government contracts. (DFARS 252.242.7006(c) (16))</p> | |

MASTER AUDIT PROGRAM

| D-1 Billing System Compliance with DFARS 252.242-7006(c)(1), (15i) and (16) System Criteria | WP Reference |
|--|---------------------|
| <p>b. Identify high risk subcontracts and validate subcontract costs billed comply with DFARS 252.242.7006(c) (15i) and/or (16). Note: (Usually, subcontracts reimbursed using interim financing (e.g., cost reimbursable, T&M, L/H or FFP with billings based on cost) are higher risk than subcontracts reimbursed based on performance, or upon completion of services or delivery of goods.)</p> | |
| <p>c. If subcontractor denied access obtain and review the denial correspondence to determine if partial or all cost information was denied.</p> | |
| <p>d. Determine if the contractor requested ACO assistance for the review of subcontract areas to which they were denied access.</p> | |
| <p>11. Other Contract Provisions: On a test basis, determine if billings are based on current contract provisions. The total amount billed should not exceed any contract, work order, funding limitation and other contract ceiling amount or billing instructions. (Note: Consider the results of all audit procedures performed in section D-01, for contract terms and billed amounts.) (DFARS 252.242-7006(c)(16))</p> | |
| <p>12. Reconciliation of Booked to Billed Costs: Review and compare contractor's reconciliation schedule of booked to billed costs (i.e., Schedule I of the most current incurred cost submission) and determine if significant overbillings are shown at either the total or individual contract level. If significant overbillings occurred, determine the cause of the overbilling and discuss the issues with your supervisor for resolutions of the overbilling. (FAR 52.216-7(d)(2)(iii)(I) and (v); DFARS 252.242-7006(c)(15)(i) and/or (16))</p> | |
| <p>13. Performance Based Payments (PBP)</p> | |
| <p>a. Compare contract brief and all contract/modifications to verify that the brief includes current, accurate, and complete contract terms/information needed for an acceptable bill (e.g., milestone requirements, other/special provisions, information regarding proper liquidation, and billing instructions).</p> | |
| <p>b. Validate total PBPs were billed at less than 90 percent of the contract price if on a whole contract basis, or 90 percent of the delivery item price if on a delivery item basis. (See FAR 32.1004(b)(2).)</p> | |
| <p>c. If PBS was submitted on a DD250 or WAWF validate the DD250 or WAWF was adjusted to reduce the invoice amount for previously paid invoices prior to delivery of an item to confirm the net invoice amount billed is correct and in accordance with FAR 52.232-32(d).</p> | |

MASTER AUDIT PROGRAM

| D-1 Billing System Compliance with DFARS 252.242-7006(c)(1), (15i) and (16) System Criteria | WP Reference |
|--|---------------------|
| <p>d. If PBS was submitted via DD 250s or WAWF, verify the DD 250's or WAWF contained a certification from the Quality Assurance Representative (QAR) that the deliverable was acceptable. Note: Review the certificate or determine if Government Inspector signed off in WAWF. (DFARS 252.242-7006(c)(16))</p> | |
| <p>14. Contract Debts, Demand Letters and Refunds</p> <p>Review contractor's listing of contract debts and related refunds and outstanding debt letters. Compare contractors listing to the Contracting officer and the paying office listing and to perform the following:</p> <ul style="list-style-type: none"> • Sample significant contract debt items from the last 12 months and • evaluate to determine if the contract debt was valid, the amounts were computed correctly and the contract debt was processed timely within 30 days. (DFARS 252.242-7006(c)(16)) | |
| <p>15. Test that selected public vouchers are mathematically correct and error free. Verify that all columns have accurate totals showing the computation of the billed quantities and unit prices. (DFARS 252.242-7006(c)(16))</p> | |
| <p>16. If significant contract overpayments are noted, do not wait until the completion of the audit to advise the ACO and paying office. Notification to the payment office with a copy to the ACO should be made after coordinating with the supervisor so that they can take action to recover the overpaid amounts. (See Proforma Notification to Payment Office available on the DCAA Intranet.)</p> | |
| <p>17. Summarize results of steps above and evaluate whether the findings result in noncompliances with the DFARS. Determine if they are significant deficiencies and material weaknesses (may result in an adverse opinion) or are less severe significant deficiencies (may result in a qualified opinion). Summarize the results of this section in working paper D.</p> | |

MASTER AUDIT PROGRAM

| E-1 Labor Accounting Compliance with DFARS 252.242-7006(c)(1), (3), (9) and (10) System Criteria | WP Reference |
|--|---------------------|
| Version 2.0, dated July 2020 | |
| To determine if the contractor's labor accounting system complies with DFARS 252.242-7006(c)(1), (3), (9) and/or (10). Use the following steps (expand, lineout, modify as necessary depending on the risk assessment). | |
| In some instances, the auditor may use the same sample to test multiple criteria. If so, the auditor needs to ensure the sample is sufficient to cover all requirements being tested. | |
| <p>1. Direct and Indirect Labor:</p> <p><i>Note: Completion of this audit step will satisfy compliance testing of DFARS criteria (3) for direct labor and DFARS criteria (1), (9), (10). The auditor should consider performing the above steps in conjunction with D-01 audit step(s) (i.e., tracing costs billed to source documentation). Combining this step with testing of direct labor costs billed in D-01 will assist with determining compliance with DFARS criteria (16). If executive compensation costs are examined in this step it will also support DFARS criteria (12) for the proper segregation of unallowable costs.</i></p> <p>If a current MAARs 6 assignment has not been performed (or if auditor determines sufficient testing was not performed) verify sampled labor charges by determining if the:</p> | |
| a. Timekeeping system identifies employees labor by intermediate or final cost objective (e.g., contract) (DFARS 252.242-7006(c)(9)). | |
| b. Labor distribution system charges the direct and indirect labor costs to the appropriate cost objectives (DFARS 252.242-7006(c)(10)). | |
| <p>c. Contractor has adequate manual/electronic system controls in place to ensure proper identification and accumulation of direct costs by contract. Examples include, but are not limited to, controls;</p> <ul style="list-style-type: none"> • for original timekeeping, general ledger and subsidiary ledger entries; • labor data transfers between multiple manual and automated labor systems; and • reporting of labor costs (DFARS 252.242-7006(c)(1)). | |
| d. Tracing direct and indirect labor charges through the timekeeping and labor distribution system to validate that labor charges are charged to appropriate cost objectives (i.e., contract or an indirect labor account) also satisfies the objective of DFARS 252.242-7006(c)(3) for direct labor (i.e., accounting system shall identify and accumulate direct labor costs by contract). | |

MASTER AUDIT PROGRAM

| E-1 Labor Accounting Compliance with DFARS 252.242-7006(c)(1), (3), (9) and (10) System Criteria | WP Reference |
|---|---------------------|
| <p>e. Executive compensation (e.g., salaries, bonuses, stock, pensions, etc.).</p> <ul style="list-style-type: none">• from the executive compensation policies and procedures obtained during the walkthrough/demonstration determine if:<ul style="list-style-type: none">○ executive compensation costs are charged to the appropriate G&A and overhead accounts to ensure that executive compensation cost (e.g., salary, bonuses, pension, stock, etc.) are being identified by employee to evaluate for reasonableness, and○ direct or indirect executive compensation cost in excess of the statutory compensation ceilings are voluntarily deleted and properly segregated and identified as unallowable cost. (see F-01, step 5) (FAR 31.205-6) | |
| <p>2. Summarize results of the steps above and evaluate whether the findings result in noncompliances with the DFARS. Determine if they are significant deficiencies and material weaknesses (may result in an adverse opinion) or are less severe significant deficiencies (may result in a qualified opinion). Summarize the results of this section in working paper E.</p> | |

MASTER AUDIT PROGRAM

| F-1 General Accounting Compliance with DFARS 252.242-7006(c) System Criteria | WP Reference |
|--|---------------------|
| Version 2.0, dated July 2020 | |
| <p>To determine if the contractor's accounting system complies with various DFARS 252.242-7006(c) system criteria as noted below. Use the following steps (expand, line-out, modify as necessary depending on the risk assessment).</p> <p>In some instances, the auditor may use the same sample to test multiple criteria. If so, the auditor needs to ensure the sample is sufficient to cover all requirements being tested.</p> | |
| <p>1. Determine if the contractor's accounting system provides for proper segregation of costs of direct costs from indirect costs (DFARS 252.242-7006(c)(2)).</p> <p>a. Verify that the contractor has controls in place to ensure proper segregation of direct cost from indirect costs. Examples include, but are not limited to, controls over;</p> <ul style="list-style-type: none"> • original general and subsidiary journal entries; • authorization of data entry transfers amongst multiple manual and automated systems; and, • the reporting of direct and indirect cost (DFARS 252.2427006(c)(1)). <p>(Generally, this will be accomplished through your observations and inquiry during the walkthrough and that should be referenced here.)</p> | |
| <p>b. Perform a nomenclature review of accounts in the trial balance. Determine if there are any indirect accounts which appear to be of a direct nature or if any direct accounts appear to be of an indirect nature.</p> | |

MASTER AUDIT PROGRAM

| F-1 General Accounting Compliance with DFARS 252.242-7006(c) System Criteria | WP Reference |
|--|--------------|
| <p>c. Perform testing to verify the transactions have been properly classified as either direct or indirect cost. (e.g., by tracing transactions to documentation supporting that they are properly classified).</p> <p><i>Note: To the extent possible, the auditor should rely on the results of the floor check (MAAR 6), and purchase existence and consumption (MAAR 13) audits for the period covered by this audit in determining the effort needed to be performed in step 1 b-c above. Determine if MAAR 6 and/or MAAR 13 are being performed during the audit period. If not, discuss with the Supervisory Auditor establishing MAAR 6 and/or MAAR 13 in conjunction with this assignment. (See step 6 and 7 below.)</i></p> <p>Summarize results and evaluate whether the findings result in noncompliances with the DFARS. (DFARS 252.242-7006(c)(1) and (2)). Determine if they are significant deficiencies in compliance with the DFARS criteria and material weaknesses in internal control (may result in an adverse opinion), or are less severe significant deficiencies (may result in a qualified opinion).</p> | |
| <p>2. General Ledger Accumulation and Reconciliation:</p> <p>a. Verify costs are accumulated under general ledger control accounts (DFARS 252.242-7006(c)(5)) and subsidiary cost ledgers and cost objectives are reconciled to the general ledger (DFARS 252.2427006(c)(6)).</p> | |
| <p>b. Validate the contractor has adequate manual and/or computerized controls (e.g., access, processing, system modification, and monitoring controls) over the cost accumulation processes to allow the government to rely on the cost contained in the contractor's cost accounting reports(DFARS 252.242-7006(c)(1)).</p> | |
| <p>c. Summarize results of step 2 and evaluate whether the findings result in noncompliances with the DFARS. (DFARS 252.242-7006(c)(5) and (6)). Determine if they are significant deficiencies in compliance with the DFARS criteria and material weaknesses in internal control (may result in an adverse opinion), or are less severe significant deficiencies (may result in a qualified opinion).</p> | |
| <p>3. Verify that the contractor posts contract costs at least monthly to books of account for the period covered by the audit (generally to the job cost ledger). (DFARS 252-242-7006(c)(11)). Document the results.</p> | |

MASTER AUDIT PROGRAM

| F-1 General Accounting Compliance with DFARS 252.242-7006(c) System Criteria | WP Reference |
|--|---------------------|
| <p>4. Adjustments to the General Ledger and Sub ledgers:</p> <p>a. Based upon the risk assessment, test a sample of adjustments (e.g., correcting, transferring, closing, and credit) for the period covered by the audit, to verify that they were appropriately approved and that the basis for the adjustment was adequately documented and supported. (DFARS 252.242-7006(c)(7)). This includes journal entries made to the general ledger and other adjustments made to transactions in the sub-ledgers (e.g., timekeeping system) for significant process such as labor, materials, ODC, and, etc.</p> | |
| <p>b. Document how the contractor monitors and controls its adjusting journal entry processes for its general and subsidiary ledgers to ensure only appropriately authorized journal entry adjustments are recorded (e.g., management review of reports, access controls, etc.) (DFARS 252.242-7006(c)(1))</p> | |
| <p>c. Summarize results of step 4 and evaluate whether the findings result in noncompliances with the DFARS. (DFARS 252.242-7006(c)(1) and/or (7)). Determine if they are significant deficiencies in compliance with the DFARS criteria and material weaknesses in internal control (may result in an adverse opinion), or are less severe significant deficiencies (may result in a qualified opinion).</p> | |
| <p>5. Verify unallowable costs (e.g., alcohol, advertisement costs, executive compensation costs above ceiling, etc.) are identified and excluded from cost billed to government contracts (e.g., unallowable direct and indirect costs are accumulated and segregated into unallowable cost accounts). (DFARS 252.242-7006(c)(12)) Document the results.</p> | |
| <p>6. Based upon your risk assessment, select contracts for the period covered by the audit, to verify that the contractor's accounting system accumulates costs at the requisite level of detail (i.e., contract line items and units), as required by the contract terms and conditions. (DFARS 252.242-7006(c)(13))</p> | |
| <p>7. Through inquiry, observation and inspection, determine if the contractor's accounting system is in accordance with standards promulgated by the Cost Accounting Standards Board, if applicable, otherwise GAAP (e.g., does the contractor have an accrual basis accounting system, dual entry accounting, posts to the general ledger, and generates basic financial reports). (DFARS 252.242-7006(c)(18)) Document the results.</p> | |

MASTER AUDIT PROGRAM

| F-1 General Accounting Compliance with DFARS 252.242-7006(c) System Criteria | WP Reference |
|--|---------------------|
| 8. Summarize results and evaluate whether the findings individually or in combination result in noncompliances with the DFARS. Determine if they are significant deficiencies and material weaknesses (may result in an adverse opinion) or are less severe significant deficiencies (may result in a qualified opinion). Summarize the results of this section in working paper F-00. | |

MASTER AUDIT PROGRAM

| M-1 Material Accounting Compliance with DFARS 252.242-7006(c)(1) and (3) System Criteria | WP Reference |
|---|---------------------|
| Version 2.0, dated July 2020 | |
| <p>To determine if contractor material accounting system complies with DFARS 252.242-7006(c)(1) and/or (3). Use the following steps (expand, line-out, modify as necessary depending on the risk assessment).</p> <p>In some instances, the auditor may use the same sample to test multiple criteria. If so, the auditor need to ensure the sample is sufficient to cover all requirements being tested.</p> | |
| <p>1. Identification/Accumulation of Direct Material Costs by Contract: If a current MAAR 13 assignment has not been performed (or if auditor determines sufficient testing was not performed) verify sampled direct material charges for the following:</p> <ul style="list-style-type: none"> • identified and accumulated by contract; • needed for the contract; • have prompt payments made to vendors; • have discounts applied when applicable; • if issued from inventory, can be traced to issuance documents, priced in accordance with disclosed practices, and issued for current use rather than for intermediate holdings. <p><i>Note: Completion of this audit step will satisfy compliance testing of DFARS criteria (DFARS 252.242-7006(c)(3)) for direct material. The auditor should consider performing the above steps in conjunction with D-01 audit step(s); i.e., tracing costs billed to source documentation. Combining this step with testing of direct material costs billed in D-01 will assist with determining compliance with DFARS criteria (16).</i></p> | |
| <p>2. Verify that the contractor has adequate manual/electronic system controls in place to ensure proper identification and accumulation of direct material costs by contract. Examples include, but are not limited to, controls;</p> <ul style="list-style-type: none"> • over original general ledger entries, and subsidiary ledger entries; • cost data transfers between multiple manual and automated direct costing systems; and, • reporting of direct material cost(DFARS 252.242-7006(c)(1)). | |
| <p>3. Summarize results of steps above and evaluate whether the findings result in noncompliances with the DFARS. (DFARS 252.242-7006(c)(1) and (3)). Determine if they are significant deficiencies and material weaknesses (may result in an adverse opinion) or are less severe significant deficiencies/material weaknesses (may result in a qualified opinion). Summarize the results of this section in working paper M.</p> | |

MASTER AUDIT PROGRAM

| N-1 Indirect Cost Accounting Compliance with DFARS 252.242-7006(c) (1), (4), (15)(ii), and (8) System Criteria | WP Reference |
|---|---------------------|
| Version 2.0, dated July 2020 | |
| <p>To determine if contractor indirect cost accumulation and allocation system complies with DFARS 252.242-7006(c)(1), (4), (15)(ii), and (8). Use the following steps (expand, line-out, modify as necessary depending on the risk assessment).</p> <p>In some instances, the auditor may use the same sample to test multiple criteria. If so, the auditor needs to ensure the sample is sufficient to cover all requirements being tested.</p> | |
| <p>1. Based on your understanding of the indirect cost pools and allocation bases from the walkthrough, perform testing to determine if the contractor's: a. Indirect costs are accumulated in logical groupings and that the groupings are allocated based on benefits accrued to intermediate and final cost objectives. (DFARS 252.242-7006(c)(4))</p> | |
| <p>b. Determine if indirect costs are accumulated by manual or automated methods or a combination and document the process and internal controls. (DFARS 252.242-7006(c)(1))</p> | |
| <p>c. Interim indirect expense rates can be readily calculated from the books of accounts. (DFARS 252.242-7006(c)(15)(ii))</p> | |
| <p>d. Determine if the indirect rate calculations are developed through manual and/or automated methods and document the process and internal controls. (DFARS 252.242-7006(c)(1))</p> | |
| <p>e. Interim rates are routinely monitored (i.e., determine if the contractor has adequate procedures for monitoring the accuracy of computed rates and comparing those rates to interim billing indirect cost rates when applicable). (DFARS 252.242-7006(c)(8))</p> | |
| <p>f. Summarize results of steps above and evaluate whether the findings result in noncompliances with the DFARS. Determine if they are significant deficiencies and material weaknesses (may result in an adverse opinion) or are less severe significant deficiencies (may result in a qualified opinion).</p> | |

MASTER AUDIT PROGRAM

| O-1 Other Direct Cost (ODC) Accounting Compliance with DFARS 252.242-7006(c)(1) and (3) System Criterion | WP Reference |
|--|---------------------|
| Version 2.0, dated July 2020 | |
| <p>To determine if the contractor's ODCs comply with DFARS 252.242-7006(c)(1) and (3). Use the following steps (expand, line-out, modify as necessary depending on the risk assessment).</p> <p>In some instances, the auditor may use the same sample to test multiple criteria. If so, the auditor needs to ensure the sample is sufficient to cover all requirements being tested.</p> | |
| <p>1. Identification/Accumulation of Other Direct Costs by Contract: Verify sampled Other Direct Cost charges for the following:</p> <ol style="list-style-type: none"> a. Identified and accumulated by contract, and b. Needed for the contract. | |
| <p>2. Verify that the contractor has adequate manual/electronic system controls in place to ensure proper identification recording and accumulation of other direct costs by contract. Examples include, but are not limited to, controls;</p> <ul style="list-style-type: none"> • over original general ledger entries, and subsidiary ledger entries; • direct cost data transfers between multiple manual and automated direct costing systems; and, • reporting of direct cost (DFARS 252.242-7006(c)(1)). | |
| <p>3. Summarize results of the steps above and evaluate whether the findings result in noncompliances with the DFARS. (DFARS 252.242-7006(c)(3)). Determine if they are significant deficiencies (may result in an adverse opinion) or are less severe significant deficiencies (may result in a qualified opinion).</p> <p><i>Note: Completion of this audit step will satisfy compliance testing of DFARS criteria (DFARS 252.242-7006(c)(1) and/or (3)) for ODCs. The auditor should consider performing the above steps in conjunction with D01 audit step(s); i.e., tracing costs billed to source documentation. Combining this step with testing of ODCs billed in D-01 will assist with determining compliance with DFARS criteria (16).</i></p> | |

MASTER AUDIT PROGRAM

| P-1 Pre-Production Cost & Follow-on Contracts Compliance with DFARS 252.242-7006(c)(14) and (17) System Criteria | WP Reference |
|---|---------------------|
| Version 2.0, dated July 2020 | |
| To determine if the contractor's other direct costs comply with DFARS 252.242-7006(c)(1), (14) and/or (17). Use the following steps (expand, lineout, modify as necessary depending on the risk assessment). | |
| 1. If the contractor's business is a manufacturing environment, verify preproduction cost (i.e., non-recurring costs) are segregated from production costs. (DFARS 252.242-7006(c)(14)) | |
| 2. If a recent Estimating System Review has been performed, review that audit and tailor the steps below accordingly. | |
| a. Verify that the contractor's system produces adequate, reliable data for use in pricing follow-on acquisitions. The test performed in the steps above for criteria 2, 3, 12, 13, 14 should allow the auditor to determine whether the contractor's system is designed to produce cost information at a sufficient level of detail for use in pricing follow-on contracts. (DFARS 252.242-7006(c)(17)) | |
| b. In addition, the auditor should consider the contractor's methods for incorporating the cost data into its follow-on pricing estimates. Document how the data is added to the contractor's estimating module or system. In addition document how the contractor confirms the accuracy of cost data used for follow-on acquisitions. Develop additional steps as required to verify the described controls are in place and functioning. (DFARS 252.242-7006(c)(1)) | |
| 3. Summarize results of steps above and evaluate whether the findings result in noncompliances with the DFARS. (DFARS 252.242-7006(c)(1), (14) and/or (17)). Determine if they are significant deficiencies and material weaknesses (may result in an adverse opinion) or are less severe significant deficiencies (may result in a qualified opinion). | |

MASTER AUDIT PROGRAM

| A-1 Concluding Steps | WP Reference |
|---|---------------------|
| Version 2.0, dated July 2020 | |
| <p>1. Team discussion. Hold a meeting with the audit team (e.g., RAM, Manager, Supervisor, Technical Specialists and Auditors) and discuss the issues identified in the audit and the impact on the conclusions and opinion in the audit report. Summarize the deficiencies by the applicable DFARS material management and accounting system criteria. Distinguish between deficiencies that are considered significant deficiencies in compliance with the DFARS criteria and a material weakness in internal control from those that are less severe significant deficiencies.</p> <p>In certain circumstances, such as when the audit procedures identify only deficiencies in compliance with DFARS criteria that are less severe significant deficiencies, assess if the less severe significant deficiency in compliance with the criteria represents a significant deficiency in internal control required to be reported per GAGAS. In this case, the less severe deficiencies should be included in the audit report in an exhibit titled “DFARS Less Severe Significant Deficiencies”. Consider discussing withhold provisions under FAR 32.503-6 with the responsible contracting officer.</p> <p>Less than material noncompliances that warrant the attention of those charged with governance should be communicated in writing to those charged with governance (GAGAS 7.45).</p> <p>Professional judgement will be used in determining how to communicate noncompliances that do not warrant the attention of those charged with governance (GAGAS 7.46).</p> | |

MASTER AUDIT PROGRAM

| A-1 Concluding Steps | WP Reference |
|--|--------------|
| <p>2. Prepare an overall summary that compiles all findings. Determine if the finding, individually or in combination, represent significant deficiencies defined by DFARS 252.242-7006(3).</p> <p>The audit report should include all significant deficiencies, even those reported in deficiency reports issued on a real-time basis under a separate assignment number during the course of the audit. For any such deficiencies, note the deficiency report number and date and the status of the deficiencies in the condition statement.</p> <p>When auditors identify both a significant deficiency in compliance with the DFARS criteria and less severe significant deficiencies, the auditor will include the less severe deficiencies (and corresponding deficiencies in internal control) in the audit report in a separate Exhibit titled “DFARS Less Severe Significant Deficiencies.” All significant deficiencies in compliance with the DFARS criteria (and the corresponding material weaknesses in internal control) will be included in an Exhibit titled “DFARS Significant Deficiencies.”</p> <p>Less than material noncompliances that warrant the attention of those charged with governance should be communicated in writing to those charged with governance to obtain the contractor’s response and included in an Appendix titled Other Matters to be Reported.</p> | |
| <p>3. After management approval, hold a meeting with the contracting officer and other key stakeholders prior to the exit conference with the contractor. Briefly discuss the procedures performed and how we arrived at our audit conclusions. Specifically explain the outcome of procedures that served to address concerns previously expressed by the stakeholders, if any.</p> | |
| <p>4. Discuss findings, included previously provided SOCARs and recommended corrective action with contractor representatives. Hold and document the exit conference.</p> | |
| <p>5. Follow up and resolve open or partially completed items and summarize audit results.</p> | |
| <p>6. Complete, index, and cross-reference WPs.</p> | |
| <p>7. Initiate appropriate action to correct noted deficiencies. (e.g., initiate cost suspension or disapproval, re-evaluate WAWF selection parameters for provisional public vouchers, etc.)</p> | |
| <p>8. If unsatisfactory conditions were noted, follow the guidance in CAM 4-800.</p> | |
| <p>9. If the audit team encounters or receives information which raises a reasonable suspicion of fraud, corruption, or unlawful activity (see relating to a Government contract, follow the guidance at CAM 4-702.4.</p> | |

MASTER AUDIT PROGRAM

| A-1 Concluding Steps | WP Reference |
|--|---------------------|
| 10. If CAS noncompliance issues were noted, follow the guidance in CAM 8-302. | |
| 11. Finalize the audit report and include the contractor's reaction and auditor's response. | |
| 12. Update the permanent file. A copy of the documented understanding of the accounting system should be filed in the perm file (CAM 4-405.b). | |
| 13. Brief the FAO Audit Staff on findings and any effect on FAO future audits. | |