

## MASTER AUDIT PROGRAM

<b>Activity Code 11090</b>	<b>Business System Deficiency Report Assignment</b>
<b>Planning Considerations</b>	<b>Version 2.0, dated July 2020</b>

### **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., FAO 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**

This assignment is intended to be used in two circumstances:

- To prepare and issue an audit report on deficiencies/instances of noncompliance with the DFARS criteria in a contractor business system after they are identified in an audit other than a business system audit (e.g., incurred cost, price proposal, or any other type of audit). In this case, the effort under this assignment may also include the performance of additional procedures to evaluate the noncompliances/deficiencies and to fully develop the elements of a finding (see CAM 10-409) if that was not fully accomplished in the originating assignment. However, such effort should generally not be extensive since the objective is not to evaluate the contractor's compliance with all aspects of the applicable DFARS criteria but only to establish whether the noncompliance identified in the originating audit represents a significant deficiency in compliance with DFARS criteria and a material weakness in internal control, or a less severe significant deficiency in compliance with DFARS criteria representing a significant deficiency in internal control to report to responsible contractor management officials.
- To prepare and issue an audit report on a significant deficiency in compliance with DFARS criteria in a contractor business system after it is identified and its existence is fully supported as part of an in-process business system audit.

In either case, the deficiency report is an integral part of the originating GAGAS examination engagement and this deficiency report assignment does not represent a separate examination engagement.

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### **Purpose and Scope**

#### Reporting Deficiencies Identified During Audits Other Than Business System Audits

In accordance with GAGAS, auditors are required to report certain findings identified during an attestation examination engagement even when those findings are related to areas outside the specific objectives of the examination and the findings are based on the engagement work performed (GAGAS 7.42 and 7.44). Those findings include, among other things, all significant deficiencies and material weaknesses in internal control, material instances of fraud, and material noncompliance with provisions of regulations or contracts that have an effect on the subject matter of the examination engagement. 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). 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). The requirements for reporting include deficiencies in a contractor's business system, which generally result in noncompliance with the DFARS business systems criteria. identified during performance of incurred cost, price proposals, or any other nonbusiness system audits. To facilitate tracking and timely resolution of such deficiencies and noncompliances, DCAA reports significant deficiencies and material noncompliances with the DFARS business systems criteria, which would also be considered material weaknesses in internal control, and significant deficiencies in internal control identified in audits other than business system audits in a separate report rather than in the report on the originating examination engagement where the conditions were identified.

#### Reporting Significant Deficiencies Identified During **In-Process** Business System Audits

Because of the importance of timely communication of significant deficiencies in compliance with DFARS criteria, in some cases, it may be appropriate to issue a deficiency report on a realtime basis prior to completion of the business systems audit once there is sufficient evidence supporting that a significant deficiency exists and the elements of findings are fully developed as a part of the originating business system audit. Whether to issue a separate deficiency report prior to completion of the business system audit using this deficiency report assignment is a matter of professional judgment, depending on the specific circumstances.

The deficiency report is an integral part of the originating examination engagement and this deficiency report assignment does not represent a separate examination engagement. It is not necessary to perform and document many of the procedures generally required to comply with GAGAS for an examination as a part of this assignment, since the procedures would be documented in the originating examination engagement. This assignment should reference the originating assignment and include the working papers from that assignment that support the finding for the deficiencies and noncompliances. In the case of deficiencies and noncompliances identified in other than business system audits, this assignment may also include additional procedures to evaluate the deficiencies and noncompliances and to fully develop the elements of a finding.

The program steps are intended as general guidance and should be tailored as determined necessary. The audit steps in the program should reflect a documented understanding between the auditor and supervisor as to the scope required to comply with GAGAS in an efficient and effective manner to meet the assignment objectives.

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B-1 Preliminary Steps	WP Reference
<b>Version 2.0, dated July 2020</b>	
Because this is not a separate examination engagement, generally only the following preliminary procedures are required, which do not constitute a full risk assessment.	
1. Document the auditor’s discussion with the contracting officer regarding the deficiency in accordance with CAM 4-105.	
2. Review the working papers of the audit assignment that disclosed the deficiency and noncompliance with the DFARS business system criteria.	
a. For deficiencies identified during in-process business system audits, verify that sufficient appropriate evidence was obtained to support that a significant deficiency exists, and that the elements of a finding were fully developed as a part of the originating business system audit. Do not proceed until that has been accomplished.	
b. For deficiencies identified in audits other than business system audits, if evaluation of the deficiency and the elements of a finding were not fully developed in the originating assignment, tailor this audit program to include the necessary additional procedures. The additional procedures should include steps to determine if the deficiency and noncompliance is a significant deficiency in compliance with the DFARS criteria, or is a less severe significant deficiency. The goal is to have responsible contractor management take appropriate corrective action. The elements of a finding should be developed for both significant deficiencies in compliance with the DFARS criteria and those deficiencies determined to be a less severe significant deficiency. Auditors should consider incorporating relevant steps from the applicable business systems audit program; i.e., those covering the DFARS criterion to which the deficiency relates and that are required to evaluate and fully develop the particular deficiency. (This will not necessarily be all procedures for a specific criterion.)	

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<b>C-1 Development of the Significant Deficiency</b>	<b>WP Reference</b>
<b>Version 2.0, dated July 2020</b>	
1. Reference the originating audit assignment and incorporate working papers from that assignment that support the finding of deficiency and noncompliance with DFARS criteria.	
2. Perform any additional procedures necessary based on the preliminary procedures in B-01, step 2, to evaluate the deficiency and fully develop the elements of a finding.	

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A-1 Concluding Steps	WP Reference
<b>Version 2.0, dated July 2020</b>	
<p>1. Summarize the results, prepare the draft report including the statement of conditions and recommendations, if applicable, in accordance with CAM Chapter 10. Reports on deficiencies identified in other than business system audits may include significant deficiencies in compliance with the DFARS criteria and deficiencies that are less severe significant deficiencies.</p> <p>Reports on deficiencies identified in in-process business system audits will only include deficiencies in compliance with DFARS criteria that are either significant deficiencies and/or less severe significant deficiencies.</p>	
<p>2. When auditors identify both a significant deficiency in compliance with the DFARS criteria and a less severe significant deficiency, 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 DFARS criteria (and the corresponding material weaknesses in internal control) will be included in an Exhibit titled “DFARS Significant Deficiencies.”</p>	
<p>3. If no reportable deficiencies are noted, a Memorandum for Record may be issued to close the assignment.</p>	
<p>4. Auditors should communicate with the contracting officers upon the completion of the audit and document the communication in the working papers. 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 DFARS 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>5. After obtaining DCAA management approval, hold and document an exit conference in accordance with CAM 4-304. Obtain the contractor’s reaction regarding all deficiencies included in the report.</p>	
<p>6. Finalize the audit report or memorandum incorporating the contractor’s reaction and auditor’s response to the contractor’s reaction.</p>	
<p>7. Update the permanent file in accordance with CAM 4-405b.</p>	
<p>8. Brief the FAO on findings and any effect on FAO future audits.</p>	