

# MASTER AUDIT PROGRAM

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| <b>Activity Code 13500</b>         | <b>Major Contractors Labor Floorchecks or Interviews</b> |
| <b>B-1 Planning Considerations</b> | <b>Version 5.1, dated October 2020</b>                   |

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| <b>Type of Service - Attestation Examination Engagement</b>  |
| <b>Audit Specific Independence Determination</b>   |
| 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.<br><br><i>(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 specialists) 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.)</i> |

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| <b>Purpose and Scope</b>  |
| The purpose of this evaluation is to evaluate the accuracy of contractor employee (salaried and/or hourly) labor hour charges to contracts, indirect accounts, or other cost objectives. When properly tailored and approved by the supervisory auditor, this program can be used to perform labor floorchecks and interviews to help satisfy the mandatory annual audit requirement relating to labor floorchecks and/or interviews. (MAAR 6)  |
| While labor interviews and floorchecks are similar, they vary in the nature and extent of procedures used. The type of procedures used is influenced by the perceived risk associated with the recording and accumulation of labor costs. In particular, the control risk associated with the contractor's labor accounting system and related internal controls will have a significant impact on the type of procedures considered necessary. In all circumstances, effective and productive audits will require some physical verification of labor transactions (interviews/floorchecks) to arrive at supportable conclusions regarding the acceptability of labor costs charged to Government contracts. The objectives of labor interviews are to evaluate the accuracy of contractor employee (salaried and/or hourly) labor hour charges to contracts, indirect accounts, or other cost objectives. The objectives of floorchecks are to verify the existence of employees and to evaluate the timekeeping internal control procedures. |
| The extent of audit effort in testing and verifying labor costs is dependent on the perceived audit risk and is influenced by (1) the nature and significance of labor and related expenses, (2) prior audit experience with the contractor, (3) the reliability and acceptability of the contractor's labor system and related internal controls, (4) the contractor's mix of contracts and nature of contract provisions, and (5) the nature of the contractor's organization and operations.   |

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### **Purpose and Scope**

It would be impractical with limited resources to analyze all labor costs at one time. The audit steps in the Preliminary Steps (Section B-1), Conditions Influencing Labor Charging Practices (Section C-1), Determining Additional Audit Effort (Section D-1), and Pre-Interview Analysis (Section E-1) will help identify those areas most likely to result in a significant adverse cost impact to the Government (risk) and the extent of Government exposure to suspected irregular conduct (vulnerability). The nature and extent of further audit effort should be based on the outcome of this risk and vulnerability analysis. All information gathered must be analyzed in relation to all other contractor knowledge obtained during the evaluation.

This program contains audit steps that will help satisfy all or part of the following mandatory annual audit requirements (MAARs):

1. MAAR 3 - Permanent Files
2. MAAR 6 - Labor Floorchecks or Interviews.
3. MAAR 7 - Changes in Charging Direct/Indirect Costs
4. MAAR 8 - Comparative Analysis - Sensitive Labor Accounts
5. MAAR 9 - Payroll/Labor Distribution Reconciliation and Tracing
6. MAAR 10 - Adjusting Entries and Exception Reports
7. MAAR 12 - Auditable Subcontracts/Assist Audits
8. MAAR 15 - Indirect Cost Comparison with Prior Years and Budgets

### **Other Planning Considerations**

Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.

### **References**

1. CAM 6-400 - Audit of Incurred Labor Costs
2. CAM 6-800 - Assist Audits of Incurred Costs
3. CAM 4-702.3 - Audit Procedures for Detecting and Responding to Fraud Indicators/Factors
4. CAM Figure 4-7-3 - Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas

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| B-1 Preliminary Steps   | WP Reference |
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| Version 5.1, dated October 2020   |              |
| 1. Read CAM 6-404.3.  |              |
| 2. Review contractor's permanent file to obtain an understanding of the contractor's labor accounting policies and procedures. Contractor organization charts, labor charging and distribution system flowcharts, and listings of current Government contracts are very useful sources of information and should be referred to often during the analysis. All relevant information gathered during the audit should be referenced in the permanent file. (MAAR 3)  |              |
| 3. 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 and perform the following procedures: <ol style="list-style-type: none"> <li>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. 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.</li> <li>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter.</li> </ol> |              |
| 4. Review the permanent file to determine prior coordination with Field Detachment related to labor-type audits or prior floorchecks. Assess the need for Field Detachment coordination.  |              |

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| B-1 Preliminary Steps   | WP Reference |
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| <p>5. 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. If there are no other studies or audits, document that information in the working papers and perform the procedures below.</p> <ol style="list-style-type: none"> <li>a. 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 efficacy of the internal controls relevant to the subject matter of the audit.</li> <li>b. If the review of the perm file or the contractor identifies relevant internal audits: <ul style="list-style-type: none"> <li>• 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. There must be a nexus between the internal audit reports and the scope of this specific assignment.</li> <li>• Document the results of the determination.</li> <li>• If assignment is at a major contractor location, coordinate with the CAD or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.</li> <li>• If assignment is at a non-major contractor and the FAO does not have a designated POC request the contractor provide access to the internal audit reports.</li> <li>• The request should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative working papers.</li> </ul> </li> </ol> |              |
| <ol style="list-style-type: none"> <li>c. If the review of the perm file or the contractor identifies relevant other audits or studies: <ul style="list-style-type: none"> <li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li> <li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li> </ul> </li> <li>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).</li> <li>e. Determine if additional audit procedures are needed to address any identified risk.</li> </ol>   |              |

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| B-1 Preliminary Steps  | WP Reference |
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| 6. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's key internal controls that are relevant to the subject matter. Auditors should be able to obtain a major portion of this understanding during a walkthrough of the subject matter.   |              |
| 7. Assess the need for specialist assistance if the work is technical in nature and the auditor might be unable to determine whether the employee is performing the effort being charged.  |              |
| 8. 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 complete. . The acknowledgement process should be performed in accordance with CAM 4-104.  |              |
| 9. Hold an entrance conference with an appropriate contractor representative(s) to exchange preliminary information about the audit and to enable the contractor to provide a briefing about its labor charging and allocation policies.   |              |
| a. Obtain an understanding of the contractor's timekeeping procedures and document the process.  |              |
| (1) Determine whether employee attendance is controlled by clock cards, timecards, other suitable time and attendance records, or are input and captured electronically.   |              |
| (2) Identify the process for controlling employee time records at each timekeeping station, or the electronic timekeeping input and related records.   |              |
| (3) Determine the procedures for notifying the employee of the assigned job number and whether the procedures provide that all changes are properly initialed/approved by the employee and the designated approving supervisor.  |              |
| (4) Determine whether hours shown on the timecards or input electronically are reconciled periodically with hours recorded on attendance and payroll records.  |              |
| (5) Determine whether there is a division of responsibility within the company between personnel responsible for the preparation and/or approval of time and attendance records and those responsible for preparation and distribution of payroll. Ensure a proper division of responsibility exists within the payroll department (CAM 6406.2(10)). |              |

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| B-1 Preliminary Steps  | WP Reference |
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| (6) Determine whether there is a division of responsibility between personnel having a part in the preparation of time and attendance records and those responsible for operating within budgets. If a division of responsibility does not exist, there is an increased risk of affecting payroll in proportion to the number of personnel the employee/manager can influence. |              |
| (7) Determine whether procedures have been established for coding and recording idle time.   |              |
| (8) Determine whether records of piece work and work performed under wage incentive plans are checked and controlled independently from production counts, approvals for allowances, and other operations.   |              |
| b. Discuss the general time period of audit performance.   |              |
| c. Advise the contractor that the evaluation will include unannounced interviews or floorchecks.   |              |
| d. Request the contractor designate a representative and an alternate to accompany the audit team during the interviews or floorchecks. A representative and alternate should be designated for each of the contractor's locations.  |              |
| e. Establish procedures for conducting interviews or floorchecks. Inform the contractor that documentation will be requested from the employee during the interview or floorcheck to support the labor effort being charged/allocated to the Government.   |              |
| f. Request the contractor to provide a representative to coordinate the audit and for discussing audit progress and findings.  |              |
| g. Follow up with contractor management on corrective actions that address previous DCAA audit findings and recommendations.   |              |
| h. Follow up with contractor management regarding other studies or audits (e.g., internal auditors, consultants, Independent Public Accountants) that impact the subject matter.   |              |

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| <b>B-1 Preliminary Steps</b>   | <b>WP Reference</b> |
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| <p>10. 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"><li>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)</li><li>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)</li><li>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)</li></ul> <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> |                     |

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| <b>B-1 Preliminary Steps</b>   | <b>WP Reference</b> |
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| <p>11. 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> <p>The discussion should include:</p> <ul style="list-style-type: none"><li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),</li><li>• relevant aspects of the contractor and its environment,</li><li>• 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). See the DoD IG website <a href="#">Fraud Detection Resources for Auditors</a> for common fraud risk factors. Copy link and paste into web browser,</li><li>• other factors identified that increase the risk of material noncompliance with laws and regulations, and</li><li>• 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.</li></ul> <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>12. Prepare the Contractor Notification Letter to be provided to the contractor at the first unannounced floorcheck. Generally follow the guidance in CAM 4-302.3a; however, the notification letter should not be provided prior to the unannounced floorcheck since this would give advance notice of the floorcheck.</p>   |                     |



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| C-1 Conditions Influencing Labor Charging Practices  | WP Reference |
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| <b>Version 5.1, dated October 2020</b>   |              |
| <p><b>Note:</b> Proper risk and vulnerability analysis requires a working knowledge of not only the contractor's operations, policies, and procedures, but also of the many conditions that may influence management decisions. Labor risk and vulnerability are usually the effect of the relationships among several conditions. The evaluation of the following factors and conditions may identify risk areas, e.g., cost/profit centers, departments, groups of employees, employee labor classifications, or contract/cost objectives where the potential for labor mischarging is high. The auditor should identify the specific risk area(s) associated with these conditions.</p>   |              |
| 1. Read CAM 6-404.6.   |              |
| 2. Determine the Government contract mix (cost vs. fixed price/commercial). A contractor with a mix of cost-type and fixed-price/commercial work may be tempted to mischarge effort allocable to fixed-price or commercial work to cost reimbursable work.   |              |
| 3. Determine if there are labor costs on classified contracts. Using the One Audit Approach (OAA), coordinate with Field Detachment to assist with identifying classified contracts included in the Government contract mix. Identify missing or truncated contract numbers. Consider reviewing contract DD 254 for specific contract security requirements.   |              |
| <p>4. For Time and Material (T&amp;M) contracts, perform a profit margin test by comparing the booked (actual costs) to billed costs. If differences between actual costs and billed costs are significant, analyze further to determine the cause for the differences (indirect rates or labor rates).</p> <p>a. If variances in the labor rates are the cause for the differences, assess the risk that the contractor is substituting less qualified employees. If substitution is occurring, include those employees performing on these contracts for detailed employee interviews.</p> <p>b. If variances in the indirect rates are the cause for the differences, prepare an audit lead sheet for this issue to be addressed in an estimating system or post award audit.</p> |              |
| 5. Perform labor cost trend analyses that includes the following:  |              |
| <p>a. Perform trend analyses to disclose any significant increases in the ratio of direct to indirect labor accounts. Significant fluctuations in the ratio of direct to indirect costs should be explained. If there is no apparent explanation, this area should be further evaluated (e.g., the contractor may be misclassifying direct contract costs to selling and marketing costs or IR&amp;D/B&amp;P costs). (MAARs 7, 8, and 15)</p>  |              |
| <p>b. Evaluate changes in procedures and practices for direct/indirect time charging of contractor employees for consistency with GAAP, CAS, and applicable contract cost principles. (MAAR 7)</p>   |              |

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| C-1 Conditions Influencing Labor Charging Practices  | WP Reference |
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| <p>c. Perform a comparative analysis of sensitive labor accounts. Significant fluctuations should be explained. Be alert to situations where labor is being excluded from overhead allocation bases or transferred from the allocation base to the indirect cost pool. (MAAR 8)</p>  |              |
| <p>6. Analyze the contractor's organizational structure to determine if it permits inconsistent treatment of similar labor costs. Determine whether the treatment of labor costs associated with program management, secretarial and administration, employee training, meetings, and downtime is consistent.</p>  |              |
| <p>7. Scan adjusting journal entries and labor transfers. (MAAR 10) Determine if there are any unusual labor transfers made via adjusting journal entries and whether adequate rationale and supporting documentation is available. Be alert to situations where labor costs are being transferred without supporting timecards and/or documentation. Seek explanations for any abnormal adjusting entries or corrections.</p>   |              |
| <p>8. Request the contractor to provide a listing of all contracts that are currently in an overrun position or projected to be in an overrun position. Labor effort associated with contracts at or near an overrun position is more likely to be mischarged.</p>   |              |
| <p>9. Request the ACO to identify any contracts considered at or near overrun or otherwise candidates for potential labor mischarging.</p>   |              |
| <p>10. Determine if the contractor's management system requires strict adherence to budgetary controls and if managers' bonuses or incentives are determined based on performance against some predetermined budget. Tight budgetary policies may increase the risk of labor mischarging.</p>  |              |
| <p>11. Determine if labor is being charged to contracts with available funding rather than to the actual contracts being worked on. This requires the auditor to be alert to this type of situation and to consider factors other than cost in determining the existence or extent of this practice. The contractor may be diverting costs that are over the contract funds or budget to other cost objectives. For example, a contractor may have already reached the contract fund limit before deliveries are to be made and may now be diverting contract costs to other contracts or cost objectives. An analysis of recent deliveries made under this contract may reveal that no labor costs were charged to the contract during the period when deliveries occurred.</p> |              |
| <p>12. Evaluate the contractor's labor charging practices for restructuring activities.</p>  |              |
| <p>a. Determine if the contractor is properly classifying restructuring activities in accordance with established agreements and DFARS 231.205-70, if applicable.</p>  |              |

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| C-1 Conditions Influencing Labor Charging Practices   | WP Reference |
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| <p>b. As actual restructuring expenditures near the negotiated restructuring cost ceiling, there is a risk that restructuring costs may be mischarged to other accounts. Determine if the incurred and projected restructuring costs are near or in excess of the negotiated ceiling.</p>   |              |
| <p>13. Identify significant contract provisions. (CAM 6-200)</p>  |              |
| <p>a. Evaluate contracts and contract modifications for certain provisions which increase the incentive for labor mischarging. An example of such a provision is one that places ceilings on certain cost elements.</p>   |              |
| <p>b. Evaluate T&amp;M and technical services type contracts to determine if they include task order funding ceilings. These ceilings prohibit the contractor from recovering any costs incurred above the ceiling limit.</p>   |              |
| <p>c. Determine if any contracts contain "Cost Sharing" clauses which require the contractor to provide goods or services at no cost or reduced costs to the Government.</p>  |              |
| <p>14. Identify Contract Definition (CD) Contracts.</p>   |              |
| <p>a. Read CAM 6-404.6b(8) for the definition of CD contracts.</p>  |              |
| <p>b. Identify all CD contracts. These contracts are high-risk contracts and, therefore, should be evaluated to make sure all allocable effort is being charged.</p>  |              |
| <p>15. Determine if the contractor has related or similar cost-type and fixed-price contracts for the same or similar items. This situation affords the opportunity to mischarge labor between the related or similar contracts.</p>  |              |
| <p>16. Determine if the contractor has significant amounts of labor being incurred at offsite locations and determine if an assist audit is required based on the level of risk at the offsite location (risk assessment factors to consider are included in CAM 6-405.3(a)). Floorchecks or labor interviews should be performed at every significant off-site location at least once every three years. If an assist audit request is determined necessary, request assist audits in accordance with CAM 6-805.1. (MAAR 12)</p> |              |
| <p>17. Determine if the contractor has an employee work at home (WAH) program and assess the materiality of the costs incurred by employees in the program. (CAM 6-405.5)</p>   |              |
| <p>18. Determine if the contractor is charging certain categories of labor directly to Government contracts contrary to the manner in which the costs were reflected in the bid proposal or contrary to the treatment accorded commercial contracts. The treatment of pre-contract and post-contract costs should be evaluated.</p>   |              |

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| <b>C-1 Conditions Influencing Labor Charging Practices</b>   | <b>WP Reference</b> |
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| 19. Evaluate any other significant conditions which may influence contractor labor charging practices. This will require knowledge of the particular contractor location and should be discussed with the supervisory auditor to develop the appropriate audit procedures. |                     |

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| <b>D-1 Determining Additional Effort</b>   | <b>WP Reference</b> |
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| <b>Version 5.1, dated October 2020</b>   |                     |
| 1. Read CAM 6-404.7.   |                     |
| 2. Analyze the information gathered in Preliminary Audit Effort (Section B-1) and the Conditions Influencing Labor Charging Practices (Section C-1). Evaluate the information in aggregate as it relates to all other information known about the contractor.                              |                     |
| 3. Use the results of the analysis to identify potential area(s) where the risk of labor mischarging is high and the Government's vulnerability is significant enough to warrant further evaluation (see CAM 6-404.7b(1) and (2) for examples of conditions indicating high risk area(s)). |                     |
| 4. Discuss the results of the analysis with the audit supervisor and adjust the scope of the audit accordingly.  |                     |
| 5. If high risk areas warranting further evaluation are identified, perform the steps in the Pre-Interview Analysis (WP E-1).  |                     |
| 6. If no high risk areas are identified, discuss with the audit supervisor either terminating the evaluation or performing a floorcheck as described in the Floorcheck Procedures (WP G-1).  |                     |

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| E-1 Pre-Interview Analysis  | WP Reference |
|---|--------------|
| Version 5.1, dated October 2020   |              |
| 1. Read CAM 6-404.8.  |              |
| 2. For each high risk area identified, determine the population of related employees.   |              |
| a. Evaluate recent labor distribution documents and payroll runs to identify all employees charging labor effort or assigned to the risk area. (Consider using data retrieval software programs.)   |              |
| b. Prepare a schedule of employees charging a major portion of their time to the risk area.   |              |
| c. Evaluate other relevant available documentation related to the risk area, e.g., organization charts, travel reports, contract files, work authorizations, material inspection and receiving reports, contract status reports, etc. This evaluation may identify employees who have worked on the contract but have not charged labor effort to it.   |              |
| d. For employees identified in 2.a and c above, schedule labor time charges for an appropriate recent period of time.   |              |
| e. Determine if any significant trends, irregularities, or inconsistencies in charging patterns exist. Make note of these employees.  |              |
| f. For employees identified in 2.e, inspect timecards, electronic labor input reports, or other labor entry source documents starting with the most current time period. Analyze each labor input media (e.g. timecard) for consistent time splitting, changes in charging patterns, corrections, alterations, whiteouts, or indications that someone other than the employee is completing the timecard or electronically inputting the employee's time. |              |
| g. For employees identified in 2.f above, evaluate travel reports and compare travel expense reports to labor distribution charges. Note any irregularities or inconsistencies.   |              |
| h. For employees performing on T&M contracts identified in C-1, Step 3, compare employee qualifications from personnel records to those required by the contract.   |              |
| i. Understand the nature of the work of each contract/cost objective charged by these employees during the test period, the time spent on each job, and other relevant information.   |              |
| 3. Select employees for interviews based on the results of the evaluation performed in 2 above. Select those employees whose time charges and other documentation indicate a high probability of mischarging.   |              |
| 4. If no employees in the high risk area appear to have questionable time charges, discuss terminating the audit of the risk area with the audit supervisor.  |              |

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| E-1 Pre-Interview Analysis   | WP Reference |
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| <p>5. For those employees selected for interviews, prepare working papers to document the interview. Working papers should include the employee name and ID number, date of the interview, the attendees, the reason for employee selection, interview summary, audit conclusion, and any followup audit work necessary.</p>   |              |
| <p>6. Formulate the questions to be asked during each interview. The questions should be factual in nature, tailored to each employee interviewed, and designed to confirm or dismiss the suspected mischarge. Avoid questions which solicit the employee's opinion. Each employee to be interviewed requires the formulation of specific tailored questions. However, general information should be solicited from each employee, such as:</p> <ol style="list-style-type: none"> <li>a. employee name and ID number</li> <li>b. current job title, position description</li> <li>c. current projects and period of performance</li> <li>d. description of work performed during the period under evaluation</li> <li>e. percentage of time spent on each project</li> <li>f. charge numbers/accounts used to record time spent on each project</li> <li>g. employee's timekeeping procedures, including any informal records used to record time and identify projects</li> <li>h. if applicable, the employee's supervisory responsibilities and related procedures including assigning and reviewing the work of subordinates; reviewing, changing, and approving time charges; controlling project costs/budgets; approving overtime; etc.</li> </ol> |              |
| <p>7. Discuss the questions to be asked of each employee with the audit supervisor.</p>  |              |
| <p>8. Obtain a plant layout and note the selected employees' locations. If any employees are located in secure locations such as a Sensitive Compartmented Information Facility (SCIF) or Special Access Program Facility (SAP-F), coordinate with the cognizant Field Detachment office.</p>  |              |

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| <b>F-1 Conducting Detailed Employee Interviews</b>   | <b>WP Reference</b> |
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| <b>Version 5.1, dated October 2020</b>   |                     |
| 1. Read CAM 6-404.9.   |                     |
| 2. Brief the other member(s) of the audit interview team on the purpose of each interview and the questions to be asked.   |                     |
| 3. Conduct the interview at the employee's work location. If during the interviews a selected employee is found to be located in a secure or restricted area/facility, such as a Sensitive Compartmented Information Facility (SCIF) or Special Access Program Facility (SAP-F), the employee should not be removed from the secure location to perform the interview. Request floorcheck assistance from the cognizant Field Detachment office. |                     |
| 4. Ask the general and specific questions formulated for each employee to confirm or dismiss any suspected labor mischarging and to establish compliance with timekeeping controls.  |                     |
| 5. Record the employee's complete responses and note any inconsistent comments or reactions. Ask appropriate follow-up questions to help clarify responses.  |                     |
| 6. Obtain any available documentation to substantiate the employee's labor efforts on each project.  |                     |
| 7. At the completion of the interviews, verify the work products observed in step 6 above by tracing them to contract requirements or have the contractor provide a description of how the interviewed employee's work corresponds to contract requirements.   |                     |
| 8. If the interview provides indications that other persons within the department or work area may be involved in mischarging their time in a manner similar to the employee currently being interviewed, conduct additional interviews before leaving the department/work area.   |                     |
| 9. If appropriate, question management, accounting, or other personnel to further clarify or confirm the employee's statements.  |                     |
| 10. Complete employee interview working papers immediately after completing the interviews.  |                     |



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| G-1 Floorcheck Procedures   | WP Reference |
|---|--------------|
| <b>Version 5.1, dated October 2020</b>  |              |
| <p><b>Note:</b> Observations of work areas (floorchecks) are appropriate when there is limited Government risk or vulnerability. In addition, performing floorchecks will help satisfy the mandatory annual audit requirement relating to labor floorchecks (MAAR 6). If conditions indicating a high probability of mischarging exists, employee interviews should be performed.</p> |              |
| 1. Read CAM 6-405.  |              |
| 2. Obtain a control list or roster of employees assigned to the department or area to be checked.   |              |
| 3. Depending on audit circumstances and objectives, randomly or judgmentally select employees to be floorchecked. If a random selection is planned, use the procedures described in the Attribute Sampling Guidebook located on the DCAA intranet.  |              |
| 4. Obtain a plant layout and note the selected employees' locations. If any employees are located in secure locations such as a Sensitive Compartmented Information Facility (SCIF) or Special Access Program Facility (SAP-F), coordinate with the cognizant Field Detachment office.  |              |
| 5. Gather appropriate background data on the selected employees such as ID number, job classification, and nature of work usually performed by the employee and his/her department or cost center prior to conducting the floorcheck.   |              |
| 6. Prepare worksheets to use during the floorchecks to help guide the questioning and facilitate the recording of the employee's responses. (See Floorcheck Questionnaire For Electronic Timekeeping System "Other Audit Guidance.")  |              |
| 7. If not already done, request the contractor to designate a representative to accompany each audit team during the floorcheck.  |              |
| 8. Request representatives of the contracting officer to accompany the audit team(s) during the floorcheck.   |              |
| 9. Brief all audit team members on the overall audit objectives and necessary background information.   |              |
| 10. Floorcheck the employees selected.  |              |
| 11. If during the interviews a selected employee is found to be located in a secure or restricted area/facility (SCIF or SAP-F) the employee should not be removed from the secure location to perform the interview. Request floorcheck assistance from the cognizant Field Detachment office.   |              |
| 12. Identify each selected employee by verifying the employee's ID number and name to the control list or roster.   |              |

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| <b>G-1 Floorcheck Procedures</b>  | <b>WP Reference</b> |
|---|---------------------|
| 13. Discuss the nature of the work being performed and observe the actual work performance to determine whether the employee is performing in the proper direct or indirect labor capacity and whether the time is being charged correctly. If the work is technical in nature, see Section B-1, Preliminary Step 6.  |                     |
| 14. Discuss the employee's timekeeping procedures to determine compliance with internal controls.   |                     |
| 15. Compare employee responses with previous data gathered. If inconsistent, ask appropriate follow-up questions.   |                     |
| 16. For selected employees not available for the interview, attempt to perform a follow-up interview. If a follow-up interview is not practical, perform additional audit steps to verify employee existence. These steps may include: an observation of the employee's work area, an evaluation of the employee's personnel/security files, and/or a follow-up telephone interview.  |                     |
| 17. When an employee selected to be floorchecked is not present at the normal work-site due to a work at home (WAH) program, the employee's supervisor should be interviewed. Discussions with the supervisor should concentrate on obtaining evidence of the employee's work and documented evidence of supervisory control over the employee's WAH schedule. The auditor should also communicate with the employee by telephone to determine if the employee has knowledge of WAH procedures, and discuss the specific type of work being performed along with the related labor charge numbers. If the employee has a regularly scheduled meeting with the supervisor in the near future, any questionable procedures or practices identified by these steps can be discussed and verified with the supervisor and employee at that time. In addition, the individual's employment should be verified to the payroll/personnel records. See CAM 6-405.5. |                     |
| 18. Obtain prompt explanations concerning all questionable procedures observed. This may require discussions with employee supervisors, contractor management, accounting, and other appropriate personnel.   |                     |
| 19. Reconcile the observations regarding the employees' labor charges with subsequent payroll and/or labor distribution records and follow-up on any discrepancies. For assist audits conducted at off-site locations, the auditors at the primary location are responsible for reconciling the time charges collected at the time of the employees' floorchecks to the labor distribution records when the official books and records are maintained at the primary location.  |                     |

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| <b>G-1 Floorcheck Procedures</b>  | <b>WP Reference</b> |
|---|---------------------|
| 20. At the completion of the interviews for direct employees, verify the observations and contract charges observed in step 13 above by tracing them to contract requirements or have the contractor provide a description of how the interviewed employee's work corresponds to contract requirements. |                     |

## MASTER AUDIT PROGRAM

| <b>H-1 Development of Findings</b>   | <b>WP Reference</b> |
|--|---------------------|
| <b>Version 5.1, dated October 2020</b>   |                     |
| 1. Read CAM 6-404.10.  |                     |
| 2. Analyze data gathered during the interviews or floorchecks with all information previously gathered to either confirm the employee labor mischarge or establish the propriety of the labor charges. |                     |
| 3. Discuss audit results and all confirmed labor mischarges with the audit supervisor.   |                     |
| 4. Determine if the labor mischarges represent isolated instances or indicate more widespread conditions. This may require the performance of additional employee interviews or floorchecks.           |                     |
| 5. Determine if more audit effort is needed to fully support the audit conclusions.  |                     |
| 6. Determine any costs questioned related to labor mischarges. Costs questioned should be specifically identified to each risk area.   |                     |
| 7. If conditions which may indicate fraudulent or other suspected irregular activities are disclosed, promptly report these as described in CAM 4702.4.  |                     |
| 8. Incorporate any assist audits (CAM 6-805), and follow-up on any outstanding assist audits.  |                     |

## MASTER AUDIT PROGRAM

| A-1 Concluding Steps  | WP Reference |
|---|--------------|
| <b>Version 5.1, dated October 2020</b>  |              |
| 1. Team Discussion. Hold a meeting with the audit team (whoever is appropriate for the level of audit risk or preliminary audit results). Discuss the results.  |              |
| 2. Draft a MEMORANDUM FOR RECORD documenting your results for incorporation in the future incurred cost audit. If the contractor does not agree with any identified questioned cost(s), draft a DCAA Form 1 in accordance with CAM 6-900, Notices of Cost Suspensions and Disapprovals under Cost-Reimbursement Contracts. If the assignment is an assist audit, provide a copy of the memo to the requesting office. |              |
| 3. If material weaknesses or significant internal control deficiencies are disclosed, ensure that the findings have been fully developed (including which specific audit criteria are identified (i.e., DFARS 252.242-7006(c) and that a material weakness truly exists. If so, open a Business Systems Deficiency (Activity Code 11090) assignment to report the deficiencies.                                       |              |
| 4. Obtain supervisory review of working papers and draft memorandum prior to discussions with the contractor.   |              |
| 5. Prior to the exit conference, auditors should discuss the draft results on significant questioned costs or complex issues with the contracting officer and invite the contracting officer to attend the exit conference:   |              |
| 6. If there are no significant findings, discuss the results of the evaluation with the contracting officer.  |              |
| 7. Conduct an exit conference in accordance with CAM 4-304. Provide a draft copy of the results to the contractor in accordance with CAM 10-208.5(d). Incorporate the contractor's reaction into the draft memorandum. If necessary, respond to contractor's comments. Finalize the memorandum.   |              |
| 8. Update the contractor permanent file (MAAR 3) in accordance with CAM 4-405 Permanent File.   |              |