

MASTER AUDIT PROGRAM

Activity Code 17740	Preaward Survey of Prospective Contractor Accounting System
B-1 Planning Considerations	Version 9.0, dated Jan 2023

Type of Service - Attestation Examination Engagement
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. <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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Purpose and Scope

The major objectives of this audit are to obtain an understanding of the accounting system to appropriately complete the Preaward Survey of Prospective Contractor Accounting System, SF 1408, and to opine as to whether the design of the contractor's system is acceptable for the award of a prospective Government contract.

DCAA FLAs have worked with the buying commands to have contractors fill out a checklist asserting they meet the SF 1408 criteria, and providing a narrative describing how they meet each criterion. Once they receive this assertion, they are sending a request to DCAA for audit, with this assertion attached. If the request for audit does not include an assertion from the contractor, contact the CO to determine if one was prepared already. If the CO did not have the contractor prepare the assertion, the auditor should ask the contractor to complete this assertion so that it can be used during the performance of the risk assessment (a proforma letter with the checklist is available as an OAG).

This audit involves only the evaluation of the design effectiveness, not the operating effectiveness of the system. Procedures performed to evaluate design effectiveness include a mix of inquiry of appropriate personnel, observation of the entity's operations, and inspection of relevant documentation. Walkthroughs that include a combination of these procedures ordinarily are sufficient to evaluate the effectiveness of the design. **Detailed testing of transactions and reperformance of the controls are not necessary when testing the design effectiveness.**

If requested to perform a Preaward Survey of Prospective Contractor Accounting System Audit on a contractor that has an active Government contract, the auditor should check the files to determine if prior work has been performed that will provide the contracting officer the information necessary to fill in the SF 1408 without the completion of the preaward audit (e.g., if a prior preaward or post contract award accounting system audit has been performed). If prior information does exist, contact the contracting officer to determine if the prior report will meet their needs. Additionally, if there are known system deficiencies or voucher processing problems, this information should be provided to the contracting officer as well. Auditors should not issue an opinion stating the design is acceptable for award when there are known deficiencies in the operating effectiveness.

If this is a follow up request to a previous preaward accounting system survey, determine whether a follow up is appropriate. If the previous preaward was completed less than 12 months ago, and the contractor's system has not changed, it would be appropriate to perform a follow up to the previous preaward. The auditor should modify the audit program appropriately, and use the audit report shell delivered through APPS to modify and report on the follow-up audit results. If the previous preaward accounting system survey was performed more than 12 months ago, and/or the contractor's system has changed, a full preaward audit should be performed. Be sure to coordinate with the contracting officer if a determination is made that a follow up is not appropriate.

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Purpose and Scope
<p>If requested to perform a Preaward Survey of Prospective Contractor Accounting System Audit on a contractor that has not yet established their accounting structure, policies and procedures, and a plan for implementation, the auditor should contact the contracting officer to inform them that the SF 1408 cannot be completed because the contractor is unable to demonstrate that the design is capable of accomplishing the criteria. An audit should not be performed in these circumstances. Note: This does not include situations where the contractor has designed it systems but has not purchased or implemented the accounting software package.</p> <p>If the request is for a Preaward Accounting System Survey for a proposed subcontract, the auditor should determine what effort the prime contractor has taken to determine if the accounting system is acceptable. FAR 9-104.4 indicates the prime contractor is generally responsible for prospective subcontractors. Therefore, the audit may not be necessary unless there are circumstances such as the subcontractor formally denying access to the prime contractor.</p>

Other Planning Considerations
<p>Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.</p>
References
<p>1. CAM 5-200, “Pre-Award Surveys and Adequacy of Accounting System for Contractual Requirements”</p>
<p>2. FAR 9.105, “Procedures (for determination of contractor’s responsibility)”</p>
<p>3. FAR 9.106, DFARS 209.106, PGI 209.106, “Preaward Surveys”</p>
<p>4. FAR 52.216-16(g), “Quarterly Limitation on Payments Statement” (FPI contracts); and FAR 52.232-20, “Limitation of Cost.”</p>

B-1 Preliminary Steps	WP Reference
Version 9.0, dated Jan 2023	
<p>1. Review the audit request and contact the Contracting Officer (CO) to ensure that the audit scope addresses any customer concerns that will impact the assessment of audit risk and adjust the audit scope and associated audit procedures accordingly (CAM 4-104.a.).</p>	
<p>2. Obtain information on the proposed Government contract (e.g., type and amount of contract, special contract provisions, etc.). Contact the CO/PCO/buying command as determined necessary to discuss any questions or concerns that were identified.</p>	

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B-1 Preliminary Steps	WP Reference
3. Review the perm file and any prior audits, and document any issues impacting the current scope of audit. If a perm file does not exist or is not current, provide a list of items (e.g., organizational charts, financial statements, policies and procedures, etc.) to be obtained during the field visit to the contractor in advance of the entrance conference, so the contractor has additional time to gather the information. Update the permanent file (See CAM 4-405.1).	
4. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures: 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.	
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. 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. b. If the review of the perm file or the contractor identifies relevant internal audits:	

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B-1 Preliminary Steps	WP Reference
<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. • 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. • If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports. • 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. • 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>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 the reported findings. <p>d. Determine if additional audit procedures are needed to respond to identified risk.</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 complete. The acknowledgement process should be performed in accordance with CAM 4-104.</p>	
<p>7. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	

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B-1 Preliminary Steps	WP Reference
<p>8. Review the contractor's assertion and narrative describing how they meet the SF 1408 criteria if applicable. The review of this assertion will allow the auditor to make preliminary judgments to obtain an understanding of the controls the contractor has in place, and determine if there are potential noncompliances that could occur. If the contractor does not submit an assertion, the auditor will need to request the contractor describe how they meet the SF 1408 criteria in order to make these preliminary judgments. Any areas of risk identified should be documented, and the necessary audit procedures to address those risk areas should be performed during the fieldwork in C-1.</p> <p><i>Note: It is important to remember that a smaller, less complex entity might achieve its control objectives in a different manner from a larger, more complex organization (e.g., they may have less employees which limits their opportunities to segregate duties). In these cases, the auditor should evaluate whether the contractor has implemented alternative controls that are effective (e.g., an outside accountant's quarterly review, payroll and/or billing invoices prepared by external service).</i></p>	
<p>9. If this audit is being performed as a follow-up, document the procedures performed to determine that continual reliance can be placed on the worked performed under the initial preaward audit (e.g., what was done to ensure no changes have taken place that would impact the areas we are not specifically looking at in the follow-up).</p>	

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B-1 Preliminary Steps	WP Reference
<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">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 205.33)b. If any specialists (internal or external) were used in the preparation of the subject matter. If yes, have the contractor explain how the specialists were used in the preparation of the subject matter. (AT-C 205.16)c. 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)d. 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>	

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B-1 Preliminary Steps	WP Reference
<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"> • 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 misstatement and noncompliance due to error or fraud.</p>	
<p>12. Arrange and conduct an entrance conference (see CAM 4-302). Explain to the contractor's representatives that as issues are developed during the audit, they will be furnished to the contractor for fact-finding and timely resolution. This process should facilitate reduced audit cycle time and efforts to respond to issues and issue the audit report. If applicable, include a follow up with contractor management on:</p> <ol style="list-style-type: none"> a. corrective actions that address previous DCAA audit findings and recommendations, b. other studies or audits that impact the subject matter. 	
<p>13. Using the information obtained prepare an initial risk assessment to determine the scope of the examination (WP B).</p>	

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C-1 Preaward Survey (SF 1408)	WP Reference
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<p>Prepare “Preaward Survey of Prospective Contractor Accounting System” (SF 1408) by completing the following audit steps. The latest version of the SF 1408 can be obtained at: http://www.gsa.gov/portal/forms/download/115778</p>	
<p>In WP B-1, the auditor reviewed the contractor assertion or description of how the contractor meets the SF 1408 criteria to assist them in understanding the controls the contractor has in place, and determining if there are potential noncompliances that could occur. In this section, the auditor will determine, based on the contractor’s assertion, and the walkthrough/demonstration (or observations, inquires, and inspections if the system is not implemented), if the contractor’s system is suitably designed for award of a prospective contract.</p> <p>When performing the following audit steps, it is important to remember that procedures performed to evaluate design effectiveness may include a mix of inquiry of appropriate personnel, observation of the entity’s operations, and inspection of relevant documentation (e.g., policies and procedures, prospective reports, and general ledger examples). Transaction testing is not required.</p> <p>If a contractor’s system has been implemented, a documented walkthrough/demonstration of the system is ordinarily sufficient to evaluate design effectiveness.</p> <p>If the contractor has designed the system, but has not yet implemented the system, the evaluation of the effectiveness of the design of the system will need to include a mix of inquiries, observation, and inspection. This may include discussions with responsible personnel, review of written policies and procedures, charts of account, etc. Note: Inquiry alone is not sufficient, observation, and/or inspection of documentation is necessary as well.</p>	
<p>1. Generally Accepted Accounting Principles. Determine if the contractor’s accounting system is designed to be in accordance with GAAP (e.g., does the contractor have or intend to have an accrual basis accounting system, dual entry accounting, a general ledger they plan to post costs to, and the ability to generate basic financial reports). (SF 1408, Section II, 1)</p>	
<p>2. Proper segregation of costs. Determine if the system is designed to preclude direct charging of indirect expenses and indirect charging of direct contract costs. (SF 1408, Section II, 2a)</p>	
<p>3. Direct costs by contract. Determine if the system is designed to produce a subsidiary job cost ledger that accumulates costs by contract at a level of detail consistent with that used by the prospective contractor in its proposal. (SF 1408, Section II, 2b)</p>	

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C-1 Preaward Survey (SF 1408)	WP Reference
<p>4. Allocation of indirect costs.</p> <ul style="list-style-type: none"> a. Determine that the system is designed to accumulate indirect costs in logical groupings. b. Determine if the groupings are allocated based on benefits accrued to intermediate and final cost objectives. c. Determine if the cost accounting system is documented with a written description of the contents of bases and pools. (SF 1408, Section II, 2c) 	
<p>5. Accumulation of costs under general ledger control. Determine if the contractor's system is designed to allow the job cost ledger, or its equivalent, to be reconciled and routinely posted to the general ledger control accounts (e.g. totals for direct labor, direct material, subcontracts, other direct costs). (SF 1408, Section II, 2d)</p>	
<p>6. Timekeeping system. Determine if the system is designed to allow labor charging to intermediate and final cost objectives based on timekeeping documents (paper or electronic timecards) and verify that the contractor has policies, procedures or instructions that require timesheets be completed and certified by the employees and approved by the employees' supervisors. (SF 1408, Section II, 2e)</p>	
<p>7. Labor distribution. Determine if the system is designed so that labor cost distribution records:</p> <ul style="list-style-type: none"> a. are reconcilable to payroll records, and b. can be reconciled to the cost accumulation records in labor subsidiary or general ledger accounts. (SF 1408, Section II, 2f) 	
<p>8. Interim determination of costs. Determine if the contractor posts, or plans to post, contract costs at least monthly to books of account. (SF 1408, Section II, 2g)</p>	
<p>9. Exclusion of Unallowables. Discuss and document the contractor's plan to identify and exclude unallowable costs if the contract is awarded. (SF 1408, Section II, 2h)</p>	
<p>10. Costs by Contract Line Item: If the prospective contract requires costs to be reported by CLIN or unit, determine what level is required. and if the system is designed to be expanded to the requisite level of detail (i.e. costs can be accumulated by sub accounts within the job cost ledger and includes details by multiple contract line items specified by the contract). (SF 1408, Section II, 2i)</p>	
<p>11. Preproduction Costs (Applies primarily to manufacturing contracts): Determine if the system is designed to segregate preproduction from production costs (to assist in repricing or follow-on contract pricing). (SF 1408, Section II, 2j)</p>	

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C-1 Preaward Survey (SF 1408)	WP Reference
<p>12. Limitation of Costs: Determine if the system is designed to ensure that:</p> <ul style="list-style-type: none"> a. Interim indirect expense rates can to be readily calculated from the books of accounts, b. Interim rates are routinely monitored. c. Controls are established to ensure compliance with the reporting requirements of FAR 52.216-16(g) or FAR 52.232-20. (SF 1408, Section II, 3a) 	
<p>13. Billings (e.g. progress payments, public vouchers): (CAM 6-1006) (SF 1408, Section II, 3b and FAR 32.504). Perform the following:</p>	
<ul style="list-style-type: none"> a. Determine if the system is designed so that billings can be reconciled to the cost accounts for both current and cumulative amounts claimed. 	
<ul style="list-style-type: none"> b. Determine if the contractor has procedures to ensure that subcontractor and vendor costs are only included in billings if payment to the subcontractor or vendor will be made in accordance with the terms and conditions of the subcontract or invoice and ordinarily within 30 days of the contractor's payment request to the Government. 	
<p>14. Adequate, Reliable Data: Based on the procedures above, summarize on WP C your conclusions on whether the contractor's system is designed to produce cost information at a sufficient level of detail for use in pricing follow-on contracts. (SF 1408, Section II, 4)</p>	
<p>15. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	

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A-1 Concluding Steps	WP Reference
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1. Summarize and document the audit results.	
2. Obtain final supervisory auditor/manager review of the working papers and audit results.	
3. After management approval, hold and document an exit conference with the contractor representative in accordance with CAM 4-304.	
4. Draft the audit report in accordance with CAM 10-200 and SF 1408 to be furnished as part of the report. The narrative section of the SF 1408 should only include the following statement "See DCAA Audit Report No. (insert audit report number), dated (insert date) for information supporting this form."	
5. Auditors should communicate with the contracting officers upon completion of the audit and document the communications.	
6. Complete the administrative working papers.	
7. Update the permanent file.	
8. Submit the working paper package and draft report to the supervisor/manager for final review and processing.	