

MASTER DOCUMENT- AUDIT PROGRAM

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| Activity Code 17741 | Post Award Accounting System Audit at Nonmajor Contractors |
| B-01 Planning Considerations | Version 5.1, dated May 2021 |

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| 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 post award accounting system audit is conducted to examine a non-major contractor's compliance with the system criteria as prescribed in DFARS 252.242-7006(c), Accounting System Administration. As a part of the examination, auditors will: <ul style="list-style-type: none">• 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. |

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| OTHER AUDIT CONSIDERATIONS |
| POST AWARD ACCOUNTING SYSTEM VS. PREAWARD SURVEY <ul style="list-style-type: none">• The post award accounting system audit (DMIS Activity Code 17741) is performed at non-major contractors subsequent to contract award, to test compliance with DFARS 252.242-7006(c). This audit can be self-initiated audit or requested by the Administrative Contracting Officer (ACO).• The preaward survey of a prospective contractor accounting system (DMIS Activity Code 17740) is performed at the request of the ACO, to determine whether the design of the accounting system is acceptable for a prospective Government contract awards. Auditors should use the information obtained in the preaward audit (the information on the contractors design) to assist in understanding the contractors system compliance. |

MASTER DOCUMENT- AUDIT PROGRAM

OTHER AUDIT CONSIDERATIONS

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 region and Headquarters PAS.

CONTRACTS WITH PROGRESS PAYMENTS

If the risk assessment identifies significant fixed price contract effort with progress payments, the auditor should:

- Contact the ACO and inquire whether the ACO has concerns related to fixed price contract billings;
- Based on the risk and discussions with the ACO, determine if additional steps are needed to test compliance with the DFARS 252.242-7006(c)(16);
- Consider, for efficiency purposes, incorporating the applicable detailed audit steps from the progress payment audit program (Activity Code 17500) into this assignment for testing compliance with the DFARS accounting system criteria;
 - If incorporation of audit steps from the progress payment audit program is not determined to be appropriate for this audit, discuss the need for a separate progress payment audit (Activity Code 17500); and
 - If determined beneficial to the Government, open a progress payment audit to determine if contractor is compliant with the billings related criteria at DFARS 252.242-7006(c)(16).

NOTE: If the FAO determines a separate progress payment audit should be performed in conjunction with this assignment, when planning the separate progress payment audit (Activity Code 17500), to the extent possible, rely on and refer to the risk assessment documented in this post award accounting system audit. A separate progress payment audit report (Activity Code 17500) will generally not be issued when the audit is performed in conjunction with a post award accounting system audit. The progress payment assignment (Activity Code 17500) should generally be closed with an MFR documenting the results of audit and the results incorporated into the post award accounting system audit report (Activity Code 17741).

MASTER DOCUMENT- AUDIT PROGRAM

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| OTHER AUDIT CONSIDERATIONS |
| SIZE AND COMPLEXITY The size and complexity of companies and their 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 and related internal controls and the risk identified in the risk assessment. For example, smaller companies might achieve its objectives in a different manner from a larger more complex organization. Smaller companies may have fewer employees, which limits their opportunities to segregate duties. In these cases, the auditor should consider whether the contractor has implemented alternative methods that are effective (e.g., an outside accountant's quarterly review, payroll and/or billing invoices prepared by external service). Inadequate segregation of duties and the risk of error may in some cases, be offset by the exercising of strong supervisory controls by the owner-manager means of direct personal knowledge of the entity and involvement in transactions. |
| FULL POST AWARD OR FOLLOW-UP ACCOUNTING SYSTEM AUDIT <ul style="list-style-type: none">• If the previous post award accounting system audit is more than 12 months old, and/or the contractor's accounting system has changed, the auditor should perform a full audit. Coordinate with the contracting officer if a follow up is not appropriate.• If a follow-up post award accounting system audit is performed, modify the audit program to determine if the contractor has corrected previously cited deficiencies and use the audit report shell delivered with the standard audit program to modify and report the follow-up audit results. |
| DISCONTINUANCE OF POST AWARD ACCOUNTING SYSTEM AUDIT If the auditor determines during the risk assessment that the non-major contractor's accounting system is so complex, it requires audit procedures contained in the audit program for a major contractor, the auditor should discontinue the audit under 17741 and use DMIS Activity Code 11070 for an accounting system audit. |
| Other Planning Considerations |
| Understand Audit Criteria: Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately. |
| AUDIT REFERENCES |
| 1. DFARS Subpart 242.7503, Contract Clause |
| 2. DFARS 252.242-7006, Accounting System Administration |
| 3. FAR 52.232-20, "Limitation of Cost;" FAR 52.232-22(b), "Limitation of Funds." |
| 4. FAR 52.216-7, Allowable Cost and Payment |

MASTER DOCUMENT- AUDIT PROGRAM

| B-01 Preliminary Steps | WP Reference |
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| Version 5.1, dated May 2021 | |
| 1. Understand and Clarify Audit Request: 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. | |
| 2. Notify the appropriate contracting officer of the commencement of the risk assessment and that a formal acknowledgement will be issued once the risk assessment is completed. The acknowledgement process should be performed in accordance with CAM 4-104. | |
| 3. Issue an audit notification letter to the contractor in accordance with CAM 4-302.3. Use the notification letter shell at working paper 11b and request a walkthrough of its accounting system for the entrance conference. The Accounting System Audit Information Request included with the notification letter provides additional information regarding what the contractor should walkthrough/demonstrate for each area. | |
| 4. 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: | |
| <ul 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. | |

MASTER DOCUMENT- AUDIT PROGRAM

| B-01 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"> 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: <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. • During the entrance conference 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. • Document the results of the inquiries including the response received from contractor’s 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). c. If the review of the perm file or the contractor identifies relevant other audits or studies: <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. d. Determine if additional audit procedures are needed to respond to identified risk. | |

MASTER DOCUMENT- AUDIT PROGRAM

| B-01 Preliminary Steps | WP Reference |
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| <p>6. 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. If significant fixed price contract effort is identified refer to Contracts with Progress Payment under Planning Consideration above. <p>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.)</p> | |
| <p>7. 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>8. Using the framework in WP B-02 if applicable to obtain an understanding of the contractor's compliance with the DFARS accounting system criteria including any internal controls that are relevant to the DFARS accounting system criteria. This information should be obtained during the walkthrough. 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-01 and D-01.</p> <p>Note: If a preaward survey (17740) has been performed, consider the information obtained on the understanding of the design of the system when confirming your understanding of the data at the walkthrough.</p> | |

MASTER DOCUMENT- AUDIT PROGRAM

| B-01 Preliminary Steps | WP Reference |
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| <p>9. If the evidential matter obtained during the audit will be highly dependent on computerized information systems, document on working paper B-02a the audit work performed that supports reliance on the computer-based evidential matter.</p> | |
| <p>10. Consider the need for specialist assistance, assistance of auditors with specialized skills, and assist audits, if any, and that should be documented on working paper B-03.</p> | |
| <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). See 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. <p>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> <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. Risk Assessment Preparation: Using the information obtained in the above steps, prepare the risk assessment to determine the scope of the audit (W/P B).</p> <p>Note: The Guidebook (available on the DCAA's web based VIPER) identifies suggested audit procedures that may assist in the preparation of detailed audit program steps.</p> | |

MASTER DOCUMENT- AUDIT PROGRAM

| C-1 Compliance with DFARS 252.242-7006, Accounting System Criteria | WP Reference |
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| Version 5.1, dated May 2021 | |
| <p>Section C-01 is used to determine if contractor’s accounting system complies with certain DFARS 252.242.7006 accounting system criteria. In some instances, the audit program suggests using 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.</p> <p>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.</p> | |
| <p>1. Control Environment, Accounting Framework, Organizational Structure: During the risk assessment auditors through a combination of inquiries, observations or inspection of documents, should obtained an understanding of how:</p> <ul style="list-style-type: none"> a. management communicates to employees management’s views on business practices and ethical behavior (e.g., has management created and maintained a culture of honesty and ethical behavior); b. costs are assigned to cost objectives (e.g., written Text of Accounts, description of indirect cost pools and allocation bases), c. the organizational structure provides an overall framework for planning, directing and controlling operations. (The contractor’s organizational structure can vary depending on the size and complexity of the contractor. The organization chart may also vary in detail based on the size of the contractor’s organization.) (DFARS 252.242-7006(c)(1)) <p>Based on that understanding, auditors should develop appropriate audit procedures based on the risk and environment identified to test compliance with this criterion.</p> | |
| <p>2. Proper Segregation of Costs: 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. Perform testing, to verify the transactions have been properly classified as either direct or indirect cost. (DFARS 252.242-7006(c)(2))</p> | |
| <p>3. General Ledger Accumulation and Reconciliation: 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 252.242-7006(c)(6)).</p> | |

MASTER DOCUMENT- AUDIT PROGRAM

| C-1 Compliance with DFARS 252.242-7006, Accounting System Criteria | WP Reference |
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| <p>4. Routine Posting to Books of Accounts: 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))</p> | |
| <p>5. Identification/Accumulation of Direct Costs by Contract: If current MAARs 6 and 13 assignments have not been performed (or the auditor determines sufficient testing was not performed in these MAARs) for the period covered for this audit, execute audit steps 6 and 7 to determine if the contractor’s accounting system provides for identification and accumulation of direct costs by contract. (DFARS 252.242-7006(c)(3))</p> <p><i>Note: To the extent possible, consider leveraging the work performed in the current MAARs 6 and 13 to satisfy the audit steps 6 and 7.</i></p> | |
| <p>6. 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"> a. identified and accumulated by contract; b. needed for the contract; c. have prompt payments made to vendors; d. have discounts applied when applicable; e. 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. (DFARS 252.242-7006(c)(3)) <p><i>Note: Completion of this audit step will satisfy compliance testing of DFARS criteria (3) for direct material. The auditor should consider performing the above steps in conjunction with D-01 audit step 4; i.e., tracing costs billed to source documentation. Combining this step with testing of direct material costs billed in D-01, step 4, will assist with determining compliance with DFARS criteria (16).</i></p> | |

MASTER DOCUMENT- AUDIT PROGRAM

| C-1 Compliance with DFARS 252.242-7006, Accounting System Criteria | WP Reference |
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| <p>7. Direct and Indirect Labor: 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:</p> <ul style="list-style-type: none"> a. the timekeeping system identifies employees labor by intermediate or final cost objective (e.g., contract) (DFARS 252.242-7006(c)(9)); and b. the labor distribution system charges the direct and indirect labor costs to the appropriate cost objectives (DFARS 252.242-7006(c)(10)). <p>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).</p> <p><i>Note: Completion of this audit step will satisfy compliance testing of DFARS criteria (3) for direct labor and DFARS criteria (9), (10). The auditor should consider performing the above steps in conjunction with D-01 audit step 4; i.e., tracing costs billed to source documentation. Combining this step with testing of direct labor costs billed in D-01, step 4, will assist with determining compliance with DFARS criteria (16).</i></p> | |
| <p>8. Indirect Cost: Based on your understanding of the indirect cost pools and allocation bases performed in step 1 above, perform testing to determine if:</p> <ul style="list-style-type: none"> a. indirect costs are accumulated in logical groupings and the groupings are allocated based on benefits accrued to intermediate and final cost objectives. (DFARS 252.242-7006(c)(4)) b. interim indirect expense rates can be readily calculated from the books of accounts (DFARS 252.242-7006(c)(15)(ii)), and c. interim rates are routinely monitored. (DFARS 252.242-7006(c)(8)). | |
| <p>9. Adjusting Entries: Test a sample of adjusting entries (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))</p> | |
| <p>10. 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) (DFARS 252.242-7006(c)(12))</p> | |

MASTER DOCUMENT- AUDIT PROGRAM

| C-1 Compliance with DFARS 252.242-7006, Accounting System Criteria | WP Reference |
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| <p>11. Identification of Contract Line Items and Units: 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>12. Pre-Production Costs: If the contractor’s business is a manufacturing environment, verify pre-production costs (i.e., non-recurring costs) are segregated from production costs. (DFARS 252.242-7006(c)(14))</p> | |
| <p>13. Pricing Follow-on Contracts: Verify that the contractor’s system produces adequate, reliable data for use in pricing follow-on acquisitions. Determine if the 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))</p> <p><i>Note: Leverage the testing performed in the steps above for criteria 2, 3, 12, 13, 14.</i></p> | |
| <p>14. Generally Accepted Accounting Principles (GAAP): Determine if the accounting system is designed to function in accordance with 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))</p> | |
| <p>15. Summarize the results of this section in working paper C.</p> | |

MASTER DOCUMENT- AUDIT PROGRAM

| D-1 Compliance with DFARS 252.242-7006(c)(15i) and (16) System Criteria – Billings on Cost Type and/or T&M/LH Contracts | WP Reference |
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| Version 5.1, dated May 2021 | |
| All of the steps in Section D with the exception of steps 7 and 9 involve the selection of a sample of public vouchers for the period under audit. Auditors should consider selecting one sample to test for all criteria addressed in these steps. Ensure that the sample selected will be sufficient and appropriate to test all areas. | |
| <p>1. Limitation of Costs or Funds and Allowable Cost and Payment Clauses:</p> <p>a. Limitation of Cost/Funds. Based on your understanding of the contractor’s processes and controls to comply with billing requirements of FAR 52.232-20, limitation of costs and FAR 52.232- 22, limitation of funds perform procedures to:</p> <ul style="list-style-type: none"> (1) determine if the contractor has procedures to brief contracts for cost/funding limitations on its billings; (2) validate the cost/funded limitation amounts shown on the vouchers are monitored and updated on a periodic basis; (FAR 12.207(b)(1) and FAR 52.212-4 Alternate I apply to DoD Commercial T&M/LH contracts.) (3) verify the total cost billed on reimbursement claims (i.e., SF 1035) 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 and controls to comply with the allowable cost and payment clause (FAR 52.216-7) perform procedures to:</p> <ul style="list-style-type: none"> (1) 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. Consider the results of audit procedures applied in D-01, step 1a and steps 2 through 8. (2) verify that the contractor is current on its submission of incurred cost proposals in accordance with contract terms (FAR 52.216-7 (d)(2)). <p><i>Note: The completion of these steps will assist in determining compliance with DFARS 252.242-7006(c)(15)(i) and (16).</i></p> | |
| <p>2. Provisional Billing Rates: Determine if indirect costs are billed at approved rates (or rates specified in the contract) at the time of voucher submission. (CAM 6-1006a (3)).</p> | |

MASTER DOCUMENT- AUDIT PROGRAM

| D-1 Compliance with DFARS 252.242-7006(c)(15i) and (16) System Criteria – Billings on Cost Type and/or T&M/LH Contracts | WP Reference |
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| <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 the public vouchers for the period under audit to determine if the contractor uses current approved provisional billing rates previously established under activity code 15500 (CAM 6-1006a(3)). (DFARS 252.242-7006(c)(16)).</p> | |
| <p>b. If selected vouchers 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>3. Reconciliation of Current and Cumulative Voucher Amounts:</p> <p>a. Reconcile 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 252.242-7006(c)(16)) to determine if the vouchers reconcile to the books of account.</p> | |
| <p>b. If vouchers include costs from 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><i>Note: The completion of these steps assist in determining compliance with DFARS 252.242-7006(c)(16).</i></p> | |
| <p>4. Direct Costs Billed:</p> <p>a. Verify that the contractor billings include only:</p> <ul style="list-style-type: none"> • subcontractor and vendor costs (i.e., direct material, ODC, etc.) that are in accordance with the terms and conditions of the subcontract or invoice; (Efficiencies may be gained by combining testing for this step with C-01 step 6, to satisfy compliance testing of DFARS criteria (3) and (16)) • costs ordinarily paid within 30 days of the contractor's payment request to the Government. • direct labor costs that are reimbursable contract costs. (Efficiencies may be gained by combining testing this step with C-01 step 7, to assist in determining compliance with DFARS criteria (3), (9), (10) and (16).) (FAR 52.216-7 (b)(1)) (DFARS 252.242-7006(c)(16)) | |

MASTER DOCUMENT- AUDIT PROGRAM

| D-1 Compliance with DFARS 252.242-7006(c)(15i) and (16) System Criteria – Billings on Cost Type and/or T&M/LH Contracts | WP Reference |
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| <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 52.232-7(a)(3)). (DFARS 252.242-7006(c)(16))</p> | |
| <p>5. Other Contract Provisions: Determine if billings are based on current contract provisions and that the total amount billed does not exceed any contract, work order, funding limitation and other contract ceiling amount or billing instructions.</p> <p><i>(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))</i></p> | |
| <p>6. Fixed Fees and Cost Withholds: Determine if the contractor 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 252.242-7006(c)(16))</p> | |
| <p>7. Reconciliation of Booked to Billed Costs: Review and compare the contractor’s reconciliation schedule of booked to billed costs (i.e., Schedule I of the most current incurred cost submission) and determine if there are significant overbillings 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 (16))</p> | |
| <p>8. Perform the following additional steps:</p> | |
| <p>a. Determine if the 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>b. Determine if the contractor is submitting final vouchers with settled amounts and rates within 120 days (or longer period if approved in writing by the Contracting Officer) after settlement of applicable final indirect costs rates for all years of physically complete contracts as required by FAR 52.216-7(d)(5). (DFARS 252.242-7006(c)(16))</p> | |
| <p>9. Summarize the results of this section in working paper D.</p> | |

MASTER DOCUMENT- AUDIT PROGRAM

| A-1 Concluding Steps | WP Reference |
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| Version 5.1, dated May 2021 | |
| <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 accounting system criteria.</p> <p>Determine whether the deficiencies are:</p> <ul style="list-style-type: none"> a. Significant deficiencies in compliance with the DFARS criteria, b. Less severe significant deficiencies in compliance with DFARS criteria and c. Deficiencies that are less than material noncompliances but important enough to merit the attention of the responsible contracting officer and contractor management officials. <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 DFARS 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 DOCUMENT- AUDIT PROGRAM

| A-1 Concluding Steps | WP Reference |
|---|--------------|
| <p>2. Summarize results and draft the audit report. The draft audit report should include all significant deficiencies and less severe significant deficiencies, and deficiencies in internal control that are material weaknesses or 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 a less severe significant deficiency, the auditor will include the less severe significant deficiencies (and corresponding significant 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. Obtain supervisory review of the working papers, and draft audit results section of the audit report before discussions with the contractor.</p> | |
| <p>4. Auditors should document and communicate with the contracting officers upon the completion of the audit and approval of the supervisor.</p> | |
| <p>5. Brief the contracting officer on significant and/or complex findings/issues,</p> | |
| <p>6. Coordinate with the contracting officer to find out and determine if inclusion of detailed notes in our report would serve a useful purpose when there are no findings.</p> | |
| <p>7. After obtaining DCAA management approval, hold and document the exit conference in accordance with CAM 4-304. Obtain the contractor's reaction regarding all deficiencies included in the report.</p> | |
| <p>8. Finalize the audit report and incorporate the contractor's reaction and auditor's response.</p> | |
| <p>9. Initiate appropriate action in relation to noted deficiencies (e.g., re-evaluate WAWF selection parameters for provisional public vouchers, etc.)</p> | |
| <p>10. If unsatisfactory conditions are noted, follow the guidance in CAM 4-800.</p> | |
| <p>11. Update the permanent file in accordance with CAM 4-405b. A copy of the documented understanding of the accounting system should be filed in the permanent file as well as a summary of any identified deficiencies.</p> | |

MASTER DOCUMENT- AUDIT PROGRAM

| A-1 Concluding Steps | WP Reference |
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| 12. Brief the FAO on findings and any effect on FAO future audits. | |