

# MASTER DOCUMENT- AUDIT PROGRAM

<b>Activity Code 17741</b>	<b>Post Award Accounting System Audit at Nonmajor Contractors</b>
<b>B-01 Planning Considerations</b>	<b>Version 7.3, dated Dec 2023</b>

<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.  <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>

<b>PURPOSE AND SCOPE</b>
The post award accounting system audit examines a non-major contractor's compliance with DFARS 252.242-7006, Accounting System Administration. During the examination: <ul style="list-style-type: none"><li>• Obtain an understanding of the contractor's compliance with DFARS 252.242-7006(c);</li><li>• Perform testing across all DFARS criteria; with the extent of testing based on the associated risk of each DFARS criteria;</li><li>• Determine if the contractor is compliant with DFARS 252.242-7006(c), Accounting System Administration, System Criteria; and</li><li>• Report non-compliance with the DFARS criteria.</li></ul>

<b>OTHER AUDIT CONSIDERATIONS</b>
<b>PREAWARD SURVEY</b> The preaward survey of a prospective contractor accounting system (DMIS Activity Code 17740) evaluates whether the design of the contractor's accounting system is acceptable Government contract awards. If DCAA completed a preaward survey, use the information obtained in the preaward survey to assist in understanding the design of the contractors accounting system. Inquire if the system design changed since the preaward survey.

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### **OTHER AUDIT CONSIDERATIONS**

#### **DFARS ACCOUNTING SYSTEM DFARS 252.242-7006(a)(2)**

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

#### **CONTRACTORS**

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

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

#### **CONTRACTS THAT DO NOT HAVE THE DFARS 252.242-7006 CLAUSE**

Contractors that do not have DoD flexibly priced contracts 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 do not have DoD contracts, tailor the language in the audit report shell accordingly. FAOs needing assistance in tailoring the audit report should coordinate with their region and Headquarters PAC.

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### OTHER AUDIT CONSIDERATIONS

#### CONTRACTORS 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 they have 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), Accounting System Administration, System Criteria, Billings;
- Consider incorporating applicable audit steps from the progress payment audit program (Activity Code 17500) into this assignment;
  - If audit steps from the progress payment audit program are not appropriate for this audit, consider opening a separate progress payment audit (Activity Code 17500) to determine if contractor is in compliance with DFARS 252.242-7006(c)(16).

**NOTE:** If the FAO opens a 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. When a separate progress payment audit is performed in conjunction with a post award accounting system audit, do not issue a separate report. Close the progress payment assignment closed with a MFR documenting the results of audit and incorporate the results into the post award accounting system audit report.

#### SIZE AND COMPLEXITY

The size and complexity of companies including their processes, operations, and accounting system vary. Tailor (add, line-out, or modify) the audit steps in this program based on the contractor's processes. For example, smaller companies may have fewer employees, which limits their opportunities to segregate duties. Consider alternative methods the contractor implemented to achieve compliance with the DFARS criteria (e.g., an outside accountant's quarterly review, payroll and/or billing invoices prepared by external service). Strong supervisory controls, such as the owner's involvement in everyday transactions, may mitigate risks of error associated with inadequate segregation of duties.

#### FULL POST AWARD OR FOLLOW-UP ACCOUNTING SYSTEM AUDIT

- If the previous post award accounting system audit is more than 4 years old, and/or the contractor's accounting system has changed, perform a full audit. Coordinate with the contracting officer if a follow up is not appropriate.
- Perform a follow-up post award accounting system audit to determine if the contractor has corrected previously cited deficiencies and report the follow-up audit results. Modify the audit program and audit report accordingly.

#### DISCONTINUANCE OF POST AWARD ACCOUNTING SYSTEM AUDIT

If the contractor's accounting system is so complex it requires audit procedures contained in the audit program for a major contractor, discontinue the audit under 17741 and use DMIS Activity Code 11070 for an accounting system audit.

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<b>OTHER AUDIT CONSIDERATIONS</b>
<b>DFARS and GAGAS REPORTING REQUIREMENTS</b> <ul style="list-style-type: none"><li>• DFARS 242.7502(d)(1), requires the auditor to report significant deficiencies. DFARS 252.242-7006(a), Accounting System Administration, Definitions, defines a “Significant Deficiency” as, “a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon data and information produced by the system that is needed for management purposes.”</li><li>• GAGAS 7.42 requires auditors to report all deficiencies in internal control that are significant deficiencies or material weaknesses, as defined in the AICPA auditing standards definitions.</li><li>• In this audit program, the term “Significant Deficiency” refers to the DFARS Significant Deficiency as defined by DFARS 252.242-7006(a), Accounting System Administration, Definitions.</li><li>• In this audit program, the term “Less Severe Significant Deficiency” is used to refer to material non-compliances that do not rise to the level of a DFARS Significant Deficiency. Report Less Severe Significant Deficiencies in a separate Exhibit to the audit report.</li><li>• GAGAS 7.45 requires auditors to communicate (in writing) non-compliances that have an effect on the subject matter that are less than material, but warrant the attention of those charged with governance. In this audit program, these types of non-compliances as, “Less than Material Non-compliances that Warrant the Attention of the Contracting Officer.” Report these non-compliances in an appendix to the audit report.</li></ul>
<b>TIMELY COMMUNICATION OF SIGNIFICANT DEFICIENCIES</b> <p>Timely communication of significant deficiencies in compliance with the DFARS criteria to those charged with governance is essential to correcting internal control deficiencies. If a deficiency requires immediate action, consider issuing a deficiency report prior to completion of the audit. Open a separate assignment using the System Deficiency Report activity code 11090. Do not establish this assignment until there is sufficient evidence that a significant deficiency or material weakness exists and the audit team has fully developed the elements of a finding for the deficiency. The decision to issue a deficiency report during the course of the audit is a matter of professional judgment. Include deficiencies reported in 11090 Business System Deficiency Reports in the final post award accounting system audit report.</p>
<b>Other Planning Considerations</b>
<b>Understand Audit Criteria:</b> Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.
<b>AUDIT REFERENCES</b>
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

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<b>B-01 Preliminary Steps</b>	<b>WP Reference</b>
<b>Version 7.3, dated Dec 2023</b>	
<b>INITIAL PLANNING</b>	
<p>1. <b>Understand and Clarify Audit Request:</b> 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.</p>	
<p>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.</p>	
<p>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.</p>	
<b>PERM FILE REVIEW</b>	
<p>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:</p>	
<p>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)</p> <p>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter.</p>	
<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>	

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B-01 Preliminary Steps	WP Reference
<p>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.</p>	
<p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <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 of the audit. 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 in writing.</li> <li>• 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.</li> <li>• Document the results of the inquiries including the response received from contractor’s representative 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> </ul>	
<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"> <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 reported findings.</li> </ul>	
<p>d. Determine if additional audit procedures are needed to respond to identified risk.</p>	
<p>6. Contract Type Considerations</p> <p><i>Note: This information is used to identify potential risk associated with contract types (e.g., labor or material being transferred to or from underrun/overrun contracts, overall monetary materiality risk by contract type.)</i></p>	

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<b>B-01 Preliminary Steps</b>	<b>WP Reference</b>
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.	
<b>ENTRANCE CONFERENCE/WALK THROUGH DEMONSTRATIONS</b>	
7. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:  <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>	
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)	
8. Obtain and document an understanding of contractor internal controls relevant to the audit. Auditors may obtain a significant portion of this understanding during the walkthrough.	
<b>RISK ASSESSMENT SUMMARY AND DISCUSSION</b>	
9. Consider the need for specialist assistance. Document assistance of auditors with specialized skills and assist audits.	

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B-01 Preliminary Steps	WP Reference
<p>10. If real-time testing of labor or purchase existence and consumption were performed for the year under audit, document the sufficiency of the procedures performed and the impact of real-time testing on the audit scope.</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"> <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.</li> </ul> <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. If the audit team obtained sufficient, appropriate evidence during the risk assessment to conclude on the compliance with any individual criterion, document the basis for the conclusions in the risk assessment working papers and on WP B-00. Additionally, determine and document the reliability of the information the audit team used to reach their conclusions on compliance with those specific criteria.</p>	
<p>13. <b>Risk Assessment Preparation:</b> Using the information obtained in the above steps, prepare the risk assessment to determine the scope of the audit.</p>	



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<b>B-01 Preliminary Steps</b>	<b>WP Reference</b>
14. After risk assessment is complete, hold an in-person meeting with the Contracting Officer and other key stakeholders. Discuss the risks identified and briefly outline the planned procedures to address the risks, placing emphasis on the set of procedures designed to address the risks identified by the contracting officer.	

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C-1 Compliance with DFARS 252.242-7006, Accounting System Criteria	WP Reference
Version 7.3, dated Dec 2023	
<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 or judgmental selection to test multiple criteria. If auditors use this method, auditors need to ensure the sample or selection 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. <b>Control Environment, Accounting Framework, Organizational Structure:</b> During the risk assessment auditors through a combination of inquiries, observations or inspection of documents, should have obtained an understanding of how:</p> <ul style="list-style-type: none"> <li>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);</li> <li>b. costs are assigned to cost objectives (e.g., written Text of Accounts, description of indirect cost pools and allocation bases),</li> <li>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))</li> </ul> <p>Based on that understanding, auditors should develop appropriate audit procedures based on the risk and environment identified to test compliance with this criterion, or reference in this section the working paper that documents sufficient evidence to opine on compliance.</p>	
<p>2. <b>Proper Segregation of Costs:</b> Perform a nomenclature review of accounts in the trial balance. Determine if there are any indirect accounts which appear to be of a direct nature or if any direct accounts appear to be of an indirect nature. 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. <b>General Ledger Accumulation and Reconciliation:</b> 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>	

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<b>C-1 Compliance with DFARS 252.242-7006, Accounting System Criteria</b>	<b>WP Reference</b>
<p>4. <b>Routine Posting to Books of Accounts:</b> 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. <b>Identification/Accumulation of Direct Costs by Contract:</b> If current real-time testing of labor or purchase existence and consumption assignments have not been performed (or the auditor determines sufficient testing was not performed in these real time testing assignments) 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 real-time testing of labor or purchase existence and consumption to satisfy the audit steps 6 and 7.</i></p>	
<p>6. <b>Identification/Accumulation of Direct Material Costs by Contract:</b> If a current real-time testing purchase existence and consumption assignment has not been performed (or if auditor determines sufficient testing was not performed) verify sampled direct material charges are:</p> <ol style="list-style-type: none"> <li>a. identified and accumulated by contract;</li> <li>b. needed for the contract;</li> <li>c. have prompt payments made to vendors;</li> <li>d. have discounts applied when applicable;</li> <li>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))</li> </ol> <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>	

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<b>C-1 Compliance with DFARS 252.242-7006, Accounting System Criteria</b>	<b>WP Reference</b>
<p><b>7. Direct and Indirect Labor:</b> If a current real-time testing of labor 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"> <li>a. the timekeeping system identifies employees labor by intermediate or final cost objective (e.g., contract) (DFARS 252.242-7006(c)(9)); and</li> <li>b. the labor distribution system charges the direct and indirect labor costs to the appropriate cost objectives (DFARS 252.242-7006(c)(10)).</li> </ul> <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><b>8. Indirect Cost:</b> 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"> <li>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))</li> <li>b. interim indirect expense rates can be readily calculated from the books of accounts (DFARS 252.242-7006(c)(15)(ii)), and</li> <li>c. interim rates are routinely monitored. (DFARS 252.242-7006(c)(8)).</li> </ul>	
<p><b>9. Adjusting Entries:</b> 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><b>10. Exclusion of Unallowable Cost:</b> 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>	

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<b>C-1 Compliance with DFARS 252.242-7006, Accounting System Criteria</b>	<b>WP Reference</b>
<p><b>11. Identification of Contract Line Items and Units:</b> 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><b>12. Pre-Production Costs:</b> 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><b>13. Pricing Follow-on Contracts:</b> 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><b>14. Generally Accepted Accounting Principles (GAAP):</b> 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. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	
<p><b>16. Summarize the results of this section in working paper C.</b></p>	

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<p><b>D-1 Compliance with DFARS 252.242-7006(c)(15i) and (16) System Criteria – Billings on Cost Type and/or T&amp;M/LH Contracts</b></p>	<p><b>WP Reference</b></p>
<p><b>Version 7.3, dated Dec 2023</b></p>	
<p>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. Audit teams may choose to use judgmental selections and must ensure with the use of this method that there is representative testing performed. Whichever method is used the audit team must determine whether the contractor’s controls, processes, and procedures are in compliance with the criteria.</p>	
<p><b>1. Limitation of Costs or Funds and Allowable Cost and Payment Clauses:</b></p> <p><b>a. Limitation of Cost/Funds.</b> 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"> <li>(1) determine if the contractor has procedures to brief contracts for cost/funding limitations on its billings;</li> <li>(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&amp;M/LH contracts.)</li> <li>(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).</li> </ul> <p><b>b. Allowable Cost and Payment.</b> 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"> <li>(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.</li> <li>(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)).</li> </ul>	

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<b>D-1 Compliance with DFARS 252.242-7006(c)(15i) and (16) System Criteria – Billings on Cost Type and/or T&amp;M/LH Contracts</b>	<b>WP Reference</b>
<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><b>2. Provisional Billing Rates:</b> Determine if indirect costs are billed at approved rates (or rates specified in the contract) at the time of voucher submission.</p> <p><i>Note: If the contractor does not have indirect billing and/or bidding rates, obtain a provisional billing rate submission. If the rates have not been approved (FAR 42.704), evaluate the reasonableness of the submitted rates.</i></p>	
<p>a. Test 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. (FAR 52.216-7(e) &amp; 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(d)(2)(v), FAR 52.216-7(e) &amp; DFARS 252.242-7006(c)(16)).</p>	
<p><b>3. Reconciliation of Current and Cumulative Voucher Amounts:</b></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&amp;M/LH contracts:</p> <ul style="list-style-type: none"> <li>(1) verify that direct labor hours billed, reconcile to the cost accounting records by labor hours and labor classifications;</li> <li>(2) direct labor was billed at appropriate contract rates; and</li> <li>(3) material costs (if applicable) billed reconcile to the cost ledger.</li> </ul> <p><i>Note: The completion of these steps assist in determining compliance with DFARS 252.242-7006(c)(16).</i></p>	
<p><b>4. Direct Costs Billed:</b></p> <p>a. Verify that the contractor billings include only:</p> <ul style="list-style-type: none"> <li>• 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))</li> <li>• costs ordinarily paid within 30 days of the contractor's payment request to the Government.</li> </ul>	

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<b>D-1 Compliance with DFARS 252.242-7006(c)(15i) and (16) System Criteria – Billings on Cost Type and/or T&amp;M/LH Contracts</b>	<b>WP Reference</b>
<ul style="list-style-type: none"> <li>• 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))</li> <li>b. If there are significant T&amp;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))</li> </ul>	
<p><b>5. Other Contract Provisions:</b> 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><b>6. Fixed Fees and Cost Withholds:</b> 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><b>7. Reconciliation of Booked to Billed Costs:</b> 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><b>8. Perform the following additional steps:</b></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>	



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<b>D-1 Compliance with DFARS 252.242-7006(c)(15i) and (16) System Criteria – Billings on Cost Type and/or T&amp;M/LH Contracts</b>	<b>WP Reference</b>
<b>9.</b> Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	
<b>10. Summarize the results of this section in working paper D.</b>	

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A-1 Concluding Steps	WP Reference
<b>Version 7.2 dated Oct 2023</b>	
<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> <ol style="list-style-type: none"> <li>a. Significant deficiencies in compliance with the DFARS criteria,</li> <li>b. Less severe significant deficiencies in compliance with DFARS criteria, or</li> <li>c. Deficiencies that are less than material noncompliances but important enough to merit the attention of the responsible contracting officer and contractor management officials.</li> </ol> <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>Use professional judgement to determine how to communicate noncompliances that do not warrant the attention of those charged with governance (GAGAS 7.46).</p>	

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A-1 Concluding Steps	WP Reference
<p>2. Summarize results and draft the audit report. Include all significant deficiencies and less severe significant deficiencies, as well as deficiencies in internal control that are material weaknesses or significant deficiencies. Also include those deficiencies 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 significant deficiencies and less severe significant deficiencies, include all significant deficiencies in compliance with the DFARS criteria in an Exhibit titled “DFARS Significant Deficiencies” and include the less severe significant deficiencies in the audit report in a separate Exhibit titled “DFARS Less Severe Significant Deficiencies.”</p> <p>Include less than material noncompliances that warrant the attention of those charged with governance 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>	
<p>12. Brief the FAO on findings and any effect on FAO future audits.</p>	