

## MASTER AUDIT PROGRAM

<b>Activity Code 19100</b>	<b>Compliance of Initial Disclosure Statement</b>
<b>B-1 Planning Considerations</b>	<b>Version 5.0, dated July 2020</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>
This standard audit program assists the auditor in planning and performing the audit in support of the cognizant Federal agency official's (CFAO) initial determination of compliance of the contractor's description of cost accounting practices submitted in the Disclosure Statement. The audit program does not include testing actual practices for compliance with CAS and FAR Part 31, because we perform those tests in conjunction with routine audits (i.e., forward pricing, incurred cost, CAS compliance audits, etc.). The compliance audit should be scheduled for completion within 60 days after the CFAO has made a determination of adequacy (CAM 8303.2).  NOTE: This program does not replace individual auditor judgment and therefore, must be tailored to reflect a mutual understanding between the audit team as to the scope required to meet auditing standards and objectives for this specific assignment.

<b>Other Planning Considerations</b>
Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.
<b>References</b>
1. CAM Chapter 8, Cost Accounting Standards
2. CAS Board Rules, Regulations, and Standards
3. DoD CAS Working Group Guidance Papers 76-6, and 77-20
4. 48 CFR 9903.202

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B-1 Preliminary Steps	WP Reference
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<p>1. Document that the contractor is required to submit a Disclosure Statement (48 CFR 9903.202). Consider whether the contractor was awarded a “trigger contract”, or is a home office or segment that is required to submit a disclosure statement because it allocates costs to, or has costs in, a CAS covered contract held by another segment. Use the CAS Coverage flow chart in CAM Chapter 8 (Figure 8-1-1) as a tool to help make this determination.</p>	
<p>2. If the organization being examined is a joint venture, teaming arrangement, or contractor wholly-owned subsidiary or division, read Chapter 37 of the Selected Areas of Cost Guidebook. Determine the need for a CAS Disclosure Statement in accordance with Chapter 37 of the Selected Areas of Cost Guidebook.</p>	
<p>3. Make a determination of adequacy for the Disclosure Statement.</p> <ul style="list-style-type: none"> <li>• Determine if the contractor followed the General Instructions in completing the form. WP B-04 contains the “Conformity of Disclosure Statement with General Instructions” tool to assist in making this determination.</li> <li>• Determine if the contractor was consistent in completing the items of the Disclosure Statement. WP B-05 contains the “Internal Consistency of Disclosed Practices in a Disclosure Statement” tool to assist in making this determination.</li> <li>• Coordinate with the contractor to provide a walkthrough of the Disclosure Statement to gain an understanding of the basis of the described practices in the Disclosure Statement and obtain other information needed to complete the risk assessment.</li> </ul> <p>Document the audit team’s conclusion about the adequacy of the Disclosure Statement. Discuss the audit team’s conclusions on the adequacy or inadequacy of the Disclosure Statement with the CFAO and confirm your discussion by memorandum. Prior to the start of the compliance auditing, we need to obtain a determination of adequacy from the CFAO. At this point it does not have to be a formal memorandum. However, prior to issuance of the report, we need to obtain a formal memo of adequacy from the CFAO.</p>	

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B-1 Preliminary Steps	WP Reference
<p>4. Coordination with Cognizant Federal Acquisition Official:</p> <p>a. If this is a requested audit, review the audit request to determine the nature and objective of the audit. Note any specific information requested and special requirements. Contact the requestor to obtain clarifications of the request and discuss any specific concerns or special requirements they may have and adjust the audit scope and procedures accordingly.</p>	
<p>b. If self-initiated, contact the CFAO to discuss any specific concerns or special requirements they may have and adjust the audit scope and procedures accordingly.</p>	
<p>5. 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>6. If necessary, coordinate with the Home Office(s) auditors to determine the status of the audit of Part VIII, and Part V, VI, and/or VII (if the Home Office establishes either practices or procedures for the types of costs covered by these parts or incurs and then allocates these types of costs to its segments). If part of a CAD network, discuss exceptions that have been identified by other offices to consider as part of this audit.</p>	
<p>7. Perform a cursory review of the Disclosure Statement to identify practices, which appear to be obviously noncompliant with an applicable Cost Accounting Standard or FAR Part 31, including agency supplements, to be considered in the scope of the audit.</p>	
<p>8. 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>	

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B-1 Preliminary Steps	WP Reference
<p>9. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter. If there are no other studies or audits, document that information in the working papers and perform the procedures below.</p> <ol style="list-style-type: none"> <li>a. Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.</li> <li>b. If the review of the perm file or the contractor identifies relevant internal audits:</li> </ol>	
<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>• If assignment is at a major contractor location, coordinate with the CAD or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.</li> <li>• If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports.</li> <li>• The request should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative working papers.</li> </ul> <ol style="list-style-type: none"> <li>c. If the review of the perm file or the contractor identifies relevant other audits or studies: <ul style="list-style-type: none"> <li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li> <li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li> </ul> </li> <li>d. Document the results of the inquiries including the response received from contractor for any request for access to internal audit reports. (If access was not granted this should include the contractor's rationale or justification for not granting access).</li> <li>e. Determine if additional audit procedures are needed to respond to identified risk.</li> </ol>	

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<p>10. Identify the accounting practices expected to have a material effect on the flow of costs to Government contracts. Materiality is a prime consideration in determining the extent of disclosure and degree of audit effort needed to assure compliance. If an area is not being audited in depth because of materiality considerations, the working papers should document this decision.</p>	
<p>11. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <ul style="list-style-type: none"> <li>a. Their knowledge of any actual, suspected, or alleged fraud or noncompliance with laws and regulations affecting the period of time corresponding to the subject matter under audit. (AT-C 205.32)</li> <li>b. Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject matter. (GAGAS 7.14)</li> <li>c. The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13)</li> </ul> <p><i>Note: Specifically document in the working papers; the inquiries and the corresponding responses as well as how the responses affect the performance of the engagement.</i></p>	

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B-1 Preliminary Steps	WP Reference
<p>12. 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. The discussion should include:</p> <ul style="list-style-type: none"> <li>• relevant prior audit experience (e.g., questioned cost, relevant reported 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 budgetary and contractual commitments, and opportunities to commit and conceal fraud). Consider the fraud risk factors and scenarios presented in the DoD OIG's webpage: <a href="#">Fraud Detection Resources for Auditors</a>. Copy link and paste into web browser,</li> <li>• other factors identified that increase the risk of material noncompliance with laws and regulations, and</li> <li>• the audit team's understanding of relevant key internal controls. Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect the subject matter, and design audit procedures to respond to the increased risk of material noncompliance.</li> </ul> <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of misstatement and noncompliance due to error or fraud.</p>	
<p>13. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to compiling and maintaining that the Disclosure Statement is compliant with</p>	
<p>CAS and FAR Part 31. Auditors should be able to obtain a major portion of this understanding during a walkthrough of the contractor's assertion.</p>	
<p>14. Request assist audit(s), if needed. A condition that may warrant an assist audit is a segment Disclosure Statement contains Parts V, VI, and/or VII that was prepared by the home office and the home office is not currently or has not previously audited these Parts.</p>	

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B-1 Preliminary Steps	WP Reference
<p>15. Review and discuss with your supervisor (or if appropriate, the audit team) the overall results of the risk assessment and reach an agreement on the (i) planned audit scope, including the detailed audit steps (-01 working papers) to be performed, (ii) timeframe for completing the audit including the proposed delivery date, which will be discussed with the requester and mutually agreed-to, and (iii) zero-based budget. Make any further adjustment to the audit program steps necessary to obtain sufficient evidence to provide a reasonable basis for the conclusion that will be expressed in the audit report.</p>	
<p>16. Obtain and document supervisory approval of the risk assessment and the planned scope of examination in working paper B and -01 working papers.</p>	
<p>17. Conduct an entrance conference. Confirm the team's understanding of the cost accounting practices being audited and supporting data. Discuss the availability of required data and personnel necessary to timely support the audit. If applicable, include a follow up with contractor management on:</p> <ul style="list-style-type: none"> <li>a. corrective actions that address previous DCAA audit findings and recommendations,</li> <li>b. other studies or audits that impact the subject matter.</li> </ul>	
<p>18. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>19. Issue a final acknowledgment memorandum to the contracting officer to communicate our audit scope and the agreed-to due date.</p>	

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C-1 Evaluation of Compliance	WP Reference
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<p>1. Prepare a list of CAS applicability dates for each standard affected by the audit used to evaluate compliance of the contractor's disclosed cost accounting practices (CAM 8-301.c.).</p> <p>Note: Use the list to determine if the Cost Accounting Standard is applicable, based on the date of applicability, before citing a CAS noncompliance.</p>	
<p>2. Determine the applicable cost accounting standards included in the scope of audit established in the risk assessment. Compare the disclosed practice to the requirements of the relevant standards and document whether the practice complies with the standard. Limit the scope of the audit to compliance of disclosed practices with the standard and applicable FAR Part 31 cost principle. Compliance of actual practices is tested in other routine audits (i.e. forward pricing, incurred cost, CAS compliance audits, etc.). Document findings and conclusions in sufficient detail to enable an experienced auditor to understand the extent and results of the procedures performed to determine if the disclosed practices is compliant with CAS and FAR Part 31.</p>	
<p>a. <i>Add Tailored Steps from Planning and Risk Assessment (B) here</i></p>	
<p>b.</p>	
<p>c.</p>	
<p>3. Obtain and incorporate results of assist audit(s), if requested.</p>	
<p>4. Coordinate significant or unusual issues with the supervisor and/or the FAO technical specialist.</p>	
<p>5. If part of a CAD or home office network, obtain feedback on similar audit issues within the network.</p>	

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A-1 Concluding Steps	WP Reference
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1. Summarize and document the results of audit.	
2. Discuss results with the supervisor and, if applicable, the technical specialist.	
3. Prepare draft audit report.	
4. Hold an exit conference with the contractor and provide a draft report to the contractor for comments in accordance with CAM 4-304. Obtain supervisory review, and management review if required, of the working papers and draft audit results section of the audit report before discussion with the contractor.	
5. Brief the CFAO on significant and/or complex findings/issues.	
6. If not already received, obtain from the CFAO's a formal determination of adequacy of the Disclosure Statement sent to the contractor.	
7. Finalize audit report incorporating the contractor's reaction and auditor's response, if applicable.	
8. Complete the administrative working papers.	
9. Update the permanent files.	
10. Submit the working paper package and draft report to the supervisor/manager for final review and processing. Note: The audit report should not be issued until the determination of adequacy is received (FAR 30.202-7(b)(1)).	