DCAAM 7640.1, DCAA Contract Audit Manual
Chapter 3
Audit Planning

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3-000 Audit Planning **

3-001 Scope of Chapter **

The Enterprise Performance Information Center (EPIC) User Guide, available on DCAA's Intranet, is the principal reference and source of information for the overall Agency planning process. EPIC contains general information about the planning process, as well as, specific and detailed estimating procedures. This chapter presents general concepts and techniques of contract audit planning. Section 1 covers planning meetings with contractors and contracting officers. Section 2 covers such fundamentals as the audit engagement, the audit program for a specific engagement, factors influencing the audit scope, the types, sources and relative quality of audit evidence, and an introduction to use of quantitative methods and information technology (IT) in contract audits. Section 3 provides guidance on briefing the contract and reporting contract provisions, which would impede contract audit or administration.

3-100 Introduction to Contract Audit Planning **

3-101 Requirements Planning **

Branch Offices will communicate with their contractors, administrative contracting officers (ACOs), and other significant customers (e.g., buying commands, procuring contracting officers (PCOs)) during the preparation of the requirements and future plans. In planning audit effort for the upcoming year, this communication helps to identify areas of risk and requirements. This communication should include the identification of upcoming proposals with estimated dates and dollar values, as well as the nature of DCAA services expected to be requested. These discussions should also address the contractor's business systems and FAR requirements.

3-102 Annual Audit Planning Meeting **

At contractor locations where significant audit effort is planned, Branch Offices will hold an annual audit planning meeting, generally within the first quarter of the fiscal year. Participants

should include the contractor's designated representatives (e.g., controller, chief financial officer, accounting personnel, vice president of contracts and/or pricing), ACOs, PCOs with significant contracting activity with the contractor, and appropriate Directorate personnel (e.g., RAM, Deputy Director, Director). At the meeting, discuss the planned audit effort, the timing of significant audits, required contractor records, required contractor support, and any audit matters that may require contractor management and/or ACO/PCO attention. The audit team should confirm the listing of forward pricing proposals the contractor expects to submit in the coming year, including the expected type of award (competitive/sole source), the anticipated estimated dollar value, and the customer. The intent of this meeting is not to change the planned audit effort but to ensure the audit effort is time-phased in an efficient and effective manner. Documentation of the meeting should include items such as minutes, attendee list, and Power Point presentation or other documents provided to the contractor to facilitate discussion.

For contractors without significant audit effort, a teleconference may be appropriate. Do not identify a contractor's audit effort as insignificant based solely on low auditable dollar volume (ADV); consider the significance of all planned audits. Annual audit planning meetings are not required for contractors with little or no planned audit effort.

3-103 Operating Plan **

Branch Offices should keep contractors and contracting officers apprised of significant changes to their operating plan that would impact the time-phasing discussed during the annual planning meeting.

3-200 Introduction to Audit Engagement Planning **

3-201 Scope of Section **

This section discusses the audit engagement; factors influencing the audit scope; preparation of the audit program, the types, sources, and relative quality of audit evidence; and the use of quantitative methods and IT in contract audits.

3-202 Audit Engagement **

a. An audit engagement is an authorization to perform a particular phase or aspect of the contract audit responsibility at a specified contractor. It includes a summary statement of the audit objectives, identifies the person or office requesting the audit, the date required, and other pertinent information which will assist in the development of the audit plan.

b. Individual audit engagements can be Branch Office initiated, established based on requests from internal/external customers or a combination of the two. Typical circumstances which may lead to an audit engagement include (1) a customer request for audit; (2) established contract audit requirements; (3) a new proposal, contract, or contract change; (4) a contract termination; (5) continuous system/operation audit requirements; and (6) changes in contractor's organization, operational procedures, or accounting and estimating policies. The auditor at all levels should always be alert to identify and report any instance where in her or his judgment an audit is needed to protect the Government's interest.

c. The overall audit plan at a major contractor should normally consider requirements for completion of current year and prior year audits of incurred costs by fiscal year. Plans for the completion of incurred cost audits may group prior years' effort as single audits, if feasible. Each engagement should include appropriate audit programs and working papers documenting work

accomplished. Each engagement should also be cross-referenced to other engagements to ensure that each audit engagement file stands alone without unnecessary duplication of documentation.

d. On all engagements, if not already provided electronically, request the contractor to submit its assertion or subject matter and the supporting data electronically. The data should be in an acceptable format for processing on DCAA computers.

3-203 The Audit Program **

The audit program is incorporated into each audit packageand generated according to the corresponding audit activity code. The most current version of the audit program is available on the intranet. The audit program is organized around the key phases of the audit lifecycle—from audit planning and risk assessment through audit conclusion and reporting.

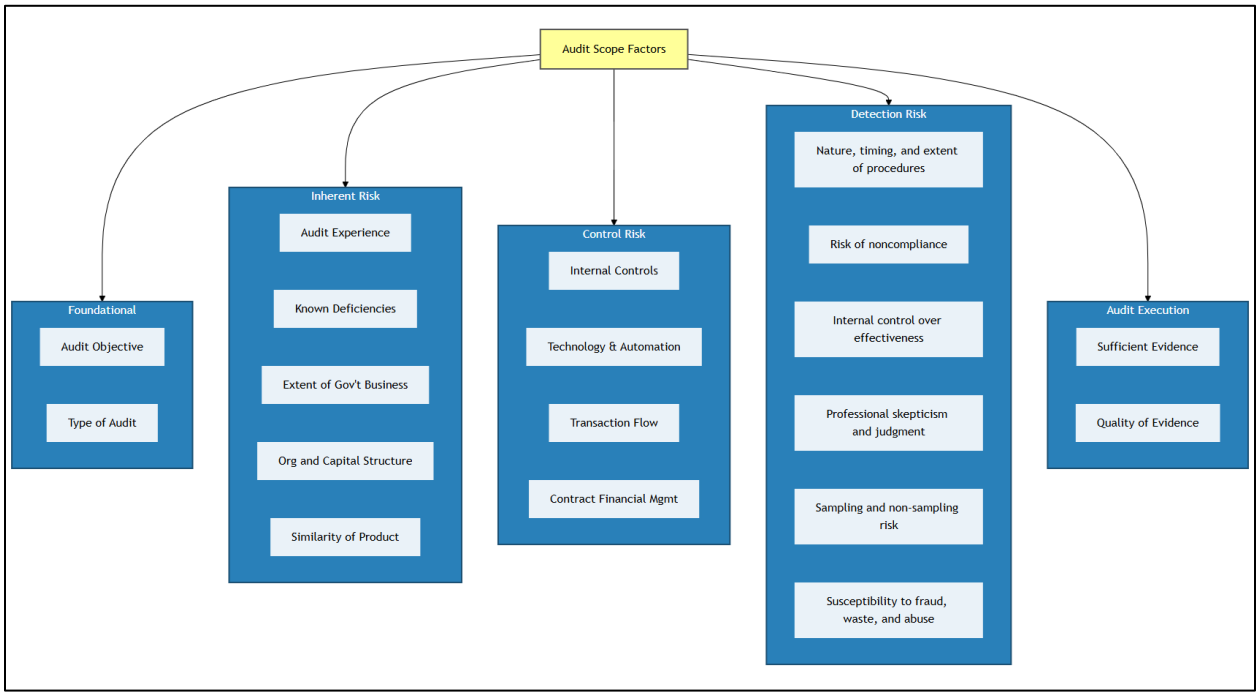
3-203.1 Contents of the Audit Program **

The major elements of an audit program include:

- **Purpose and Scope:** Describes the overall purpose and scope of the audit. A clear understanding of the audit objective and the intended outcomes is essential to planning the audit effectively.
- **References:** Provides references to key audit guidance. Audit criteria are derived from acquisition regulations (e.g., FAR, DFARS, and contract terms), accounting standards (e.g., GAAP and CAS), and agency guidance (e.g., CAM, guidebooks, MRDs, and Top Notes). Understanding the relevant criteria is essential to defining the scope of the audit.
- **Audit Planning Considerations:** Describes the key considerations when planning the audit. The audit risk assessment process is critical in evaluating audit risk and further defining the audit scope. This process incorporates adequacy review, materiality assessment, control and inherent risk assessment, and both external and internal communication.
- **Preliminary Audit Steps:** Includes steps to assess the adequacy of the contractor's submission (if any), obtain familiarity with the submission or audit area, assess and summarize risk (including the assessment of the contractor's internal controls) to establish the specific audit objectives, and to accomplish the entrance conference.
- **Detailed Audit Steps (Field Work):** Includes tailored audit steps based on risk and audit opinion.
- **Concluding Audit Steps:** Includes steps to summarize the results of the audit, prepare the audit report, conduct and document the exit conference, update the permanent files, and other concluding steps as necessary.

3-204 Factors Influencing the Audit Scope **

Determining the scope of an audit is a critical process that requires the auditor to exercise professional judgment, carefully balancing vulnerability and risk. The final scope is not a single decision but is shaped by a variety of interconnected factors. The audit risk model provides the overall framework for audit planning. Below is a breakdown of the components of the audit risk model and factors to be considered.



3-204.1 Foundational Factors **

These factors establish the fundamental purpose and context of the audit.

- **Audit Objective:** The primary driver of scope is the audit's purpose. This objective dictates the necessary level of testing, which can range from a narrow request for specific data to a comprehensive review of a contractor's entire operation. The scope should be tailored and adequate to form an audit opinion that fulfills the audit requester's needs.
- **Type of Audit:** The specific type of audit directly influences the assessment of risk. For example, a cost-type contract may present a low risk of cost overstatement during a price proposal audit but a high risk during an incurred cost audit. This risk profile directly shapes the resulting audit scope.

Inherent risk and control risk are outside the auditor's control, while detection risk is the only one the auditor can manage directly. To keep the overall attestation risk to an acceptable limit, the auditor must assess the level of risk for each component of attestation risk.

3-204.2 Inherent Risk **

Inherent risk is the susceptibility of the subject matter to a material misstatement before consideration of any related controls. Assessing inherent risk involves obtaining an understanding of the criteria, the subject matter of the audit, and considering known risk factors, prior experience with the entity’s compliance, appropriate and timely corrective actions to address prior findings, potential impact of fraud or noncompliance on the assertion or the subject matter being audited, the need for specialist assistance and making preliminary judgments about materiality for attest purposes.

- **Audit Experience:** A review of prior audit work packages and permanent files is essential. This history helps identify high-risk areas that may require an expanded scope, as well as low-risk areas where audit effort can be safely reduced.
- **Known Deficiencies:** If previous audits uncovered deficiencies, the current audit scope must include steps to verify whether those issues still exist. The auditor must determine if corrective actions were taken and assess the current impact of any unresolved deficiencies.
- **Extent of Government Business:** The more significant the government's financial interest in a contractor's operations, the more important it is to evaluate management's cost controls. When a contractor's business is dominated by cost-reimbursement contracts, the audit scope will focus more on the effectiveness of cost control. Conversely, a business dominated by competitive, firm-fixed-price work has a natural profit motive to control costs, which can influence the audit scope.
- **Organizational and Capital Structure:** A contractor's financial health is a key indicator of risk. If a company has insufficient working capital, cash flow problems, or a highly cyclical business, there may be a tendency to misallocate costs to government contracts to maintain stability. This increases risk and requires more thorough testing of transactions.
- **Similarity of Product:** The nature of the work being performed influences the audit focus. When government and commercial products are similar, the audit will emphasize the equitable and consistent assignment of direct costs. When the work is substantially different, the focus shifts to the consistency of charging practices and the appropriateness of indirect cost allocation bases.

3-204.3 Control Risk **

The risk that a material misstatement or noncompliance will not be prevented or detected and corrected on a timely basis by the contractor. The reliability and integrity of the contractor's internal systems are vital. The auditor’s understanding of internal control should include gaining knowledge of the contractor's control environment, information and communication methods, processes for assessing risk, monitoring processes, and control activities relevant to the assertion or the subject matter. Auditors should maintain professional skepticism and exercise appropriate professional judgment when evaluating how the various components of internal control affect the subject matter.

Control Risk Factors:

- **Internal Controls:** The adequacy of a contractor's internal control structure is a major factor. Well-defined, formalized systems with strong controls and proper separation of duties allow the auditor to place more reliance on the contractor's data, potentially reducing the audit scope. Control activities are the actions, established through policies and procedures, that ensure management's risk-mitigation directives are being carried out. They may be preventive or detective, manual or automated tasks, such as including approvals, verifications, reconciliations, and performance reviews. Auditors may gain an understanding of the design of specific controls through various procedures, including:

  (a) Inquiries of appropriate management, supervisory, and staff personnel (note:

inquiry alone is not sufficient to enable the auditor to gain an understanding of the design of specific controls),

(b) Inspection of entity's documents,

(c) Observation of the entity's activities and operations,

(d) Reperformance of accounting procedures or controls,

(e) Recalculations.

- **Technology and Automation:** The degree of automation can be a double-edged sword. While sophisticated systems can produce reliable data, they can also obscure misallocations, and the audit trail may become less distinct. The scope must account for these risks, considering the results of any prior audits of these systems.
- **Transaction Types and Flow:** The nature of transactions affects the audit effort. Externally generated transactions (e.g., material purchases) are often supported by third-party documentation and are easier to verify. Internally generated transactions (e.g., labor charges, cost transfers) carry higher risk and require a more extensive evaluation of the entire system used to incur, identify, and control those costs.
- **Contract Financial Management:** The audit scope should include an evaluation of the contractor's systems for managing the finances of individual contracts. These controls are critical for ensuring that timely and accurate data is available for both the contractor and the government to make informed decisions about funding and performance.

3-204.4 Detection Risk **

Detection risk is the risk that the audit procedures to be performed by the auditor will not detect a material noncompliance. The process of assessing control and inherent risk provides evidential matter about the risk that a material noncompliance may exist within the assertion or the subject matter. It is the component of audit risk most directly within the auditor's control, managed through the nature, timing, and extent of procedures performed.

Detection risk has an inverse relationship with the assessed risk of material misstatement: as inherent and control risk increase, the auditor must reduce detection risk to keep overall audit risk acceptably low. Beyond the risk of material misstatement, auditors must also consider compliance with laws, regulations, contract provisions, and grant agreements, as well as the effectiveness of internal control over compliance.

Detection Risk Factors:

- Nature, timing, and extent of procedures designed to address identified risks.
- Risk of noncompliance with applicable laws, regulations, contracts, or grant agreements.
- Internal control over compliance and its operating effectiveness.
- Professional skepticism and judgment applied throughout the engagement.
- Sampling and non-sampling risk, including the quality of audit evidence obtained.
- Susceptibility to fraud, waste, and abuse, consistent with the government-sector

emphasis.

To address detection risk, the auditor develops further audit procedures that respond directly to the risks identified. These may include:

- **Tests of operating effectiveness** to evaluate relevant controls. The audit team should use their understanding of the internal control structure, the assessed level of control risk and consideration of inherent risk, and consideration of materiality to assess detection risk and design substantive procedures for testing the contractor's assertion or the subject matter.
- **Substantive procedures** to examine specific cost elements or other areas addressed within the contractor's assertions. Substantive procedures include substantive analytical procedures and tests of details. Attestation risk will never be low enough to entirely eliminate the need for all substantive procedures. Furthermore, inquiry and/or analytical procedures alone are not sufficient to support the high level of assurance provided in an examination engagement.

3-204.5 Materiality **

Effective planning considers more than the procedures themselves; it also determines the timing and location of each procedure, the questions to be asked, and the right individuals to address them. The audit team should consider materiality when establishing the overall engagement strategy.

(1) Materiality refers to misstatements or omissions that could reasonably be expected to affect the decisions users make based on the audited information. The audit team weighs both qualitative and, where relevant, quantitative factors, using professional judgment to determine which factors matter most in each engagement.

(2) When establishing the overall engagement strategy, the practitioner should consider materiality for the subject matter and reconsider materiality if the auditor becomes aware of information during the engagement that would have caused the auditor to have initially determined a different materiality.

(3) Preliminary judgments regarding materiality and sensitivity assist in identifying accounts, cost elements or areas for further procedures. Establishing preliminary judgments about materiality helps ensure matters that could be material to the subject matter, either individually or in the aggregate, are a primary consideration in performing the audit procedures.

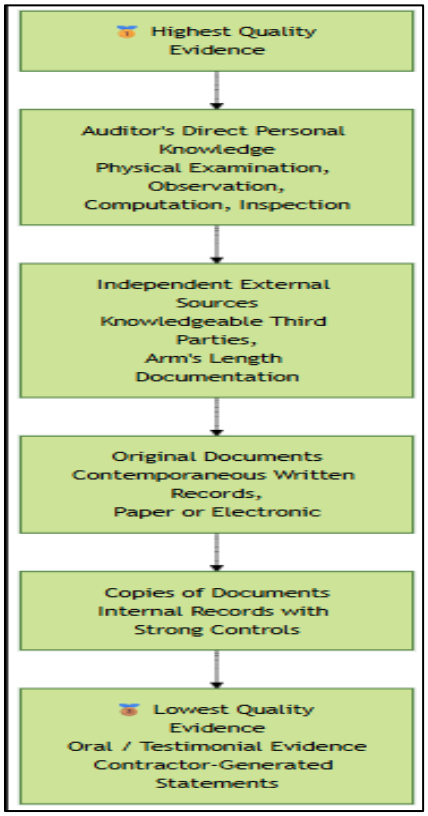
3-204.6 Audit Execution Factors **

This category governs the standards and practices of the audit itself, ensuring its integrity and reliability.

- **Sufficient & Appropriate Evidence:** Generally Accepted Government Auditing Standards (GAGAS) require the auditor to obtain enough high-quality evidence to form a reasonable basis for their conclusions. "Sufficiency" refers to the quantity of evidence, while "appropriateness" refers to its quality (relevance, validity, and reliability). The level of risk directly impacts the amount of evidence needed—higher risk demands more evidence. Sufficient substantive procedures must be performed to obtain sufficient appropriate evidence during tests of the contractor’s assertion against the audit criteria to provide a reasonable basis for the high level of assurance

expressed in the report.

- **Quality of Evidence:** The reliability of evidence varies by its source and nature. Evidence obtained through the auditor's direct personal knowledge (like physical observation) is more reliable than evidence obtained indirectly. Likewise, evidence from independent external sources is stronger than information secured solely from the contractor. The audit scope must be designed to gather enough of the highest quality evidence available. Below is the Evidence Quality Hierarchy diagram:



3-205 Developing the Budgeted Hours **

a. AICPA standards require "The practitioner should establish an overall engagement strategy that sets the scope, timing, and direction of the engagement and guides the development of the engagement plan." The audit program is the key to documenting the audit planning and audit procedures to be performed. It is a written plan for orderly accomplishment of the audit engagement and, when completed, is a permanent record of the work done. It reflects a mutual understanding between the auditor and supervisor on the scope required to meet government auditing standards and objectives for the engagement.

b. During the planning process supervisors and auditors should come to an agreement regarding the budgeted hours for the engagement. Audit budgets should be based on risk factors identified in the risk assessment and throughout the course of the audit including appropriate risk factors based upon historical experience with the contractor. However, the audit risk, scope and budget should not be based on the programmed hours nor productivity measures because neither considers current facts and circumstances applicable to the specific audit. Programmed hours are

generally based upon historical experience and are to be used as a staffing tool. Further, performance measures apply at the macro level, an average of the aggregate of engagements, and not to the micro level, that is, to individual engagements.

c. The audit program provides for recording actual time, working paper reference, date completed and by whom, evidence of supervisory review and the date, and an explanation of any work not completed as initially planned, also at the lead working paper level. As a rule of thumb, budgeted and actual hours below the lead working paper level need not be separately accounted for. However, auditors and supervisors may choose to budget and account for audit hours at a greater level of detail by editing the audit program to insert the hours, by annotating the supervisory instructions, or by any other available procedure that communicates the planner's intentions.

d. Milestone plans are required for audits of all high risk proposals, major contractor incurred costs submissions, business systems audits and other audits deemed significant by the Branch Office manager/supervisor and will assist in budgeting. A well-developed milestone plan will include detailed audit tasks, team roles and responsibilities, and a realistic completion date for each milestone (consideration for auditor experience, annual leave, training, budgeted hours and other engagements should be factored in). The audit team will develop the milestone plan. The supervisory auditor will review the milestone plan and discuss any concerns with the audit team. The entire audit team, including the supervisory auditor, should agree to the final milestone plan. Auditors should share portions of the milestone plan with the contracting officer and the contractor. For example, auditors should discuss with the contractor the planned dates for testing, when data is needed to support the testing, and when they plan to provide them their draft report and will require a response to their findings, if applicable. Additionally, auditors should discuss with the contracting officer the need for technical reviews, including the necessary review dates, and the date we will provide our draft and final reports to them.

3-206 Developing the Audit Program Steps **

a. Agency electronic working papers should be used for all audit engagements. Auditors should ensure they begin the audit with the most current version of software used. The standard audit program included in the electronic working papers should be tailored (i.e., audit steps should be added, identified as not applicable (N/A), or modified, as appropriate) based on the documented risk assessment and the specific audit objectives. Prior to submitting for supervisory approval, the auditor will identify unnecessary steps as N/A and add an explanation as to why the step is unnecessary directly below the step or provide an explanation on a separate working paper and include a reference in the appropriate column. If a standard audit program does not exist for the audit area, develop a program based on the risk and audit objectives.

b. The steps of the audit program will be integrated into the relevant working paper sections where the audit work will be performed. The audit program would typically be broken out as described below:

- Working Paper A - Summary Working Paper and Audit Planning Document - includes purpose and scope of audit and concluding audit steps
- Working Paper B - Risk Assessment and Preliminary Audit Steps - includes audit planning considerations, preliminary audit steps, and steps needed to assess risk
- Lead Working Papers - Include the applicable detailed audit program steps for the cost

element/area being evaluated in that section of the working papers

- Detailed Working Papers - Would not typically contain any audit program steps, but provide evidence of the accomplishment of the audit program steps in the lead working papers

3-206.1 Modifications to the Audit Program **

During the audit, the auditor may identify conditions that require the initial audit program to be modified (e.g., steps need to be added, are determined no longer necessary, or existing steps need to be modified). When changes to the approved audit program are necessary, the auditor should discuss the need to modify the audit program with the supervisor, document the results of the discussion, modify the audit program based on the interim discussion, and document the re-approval. If it is determined that a step is no longer necessary, the audit program should be modified and the step identified as N/A, and with an explanation added directly below the lined-out step or in a separate working paper as necessary. If the modification to the audit program is a result of a significant change to the initial risk assessment, the risk assessment should be updated. If the Agency significantly revises the standard audit programs, Headquarters will notify the field. If any of these revisions are so significant that they must be incorporated into audits in process, auditors will be notified via email from the CASA Directorate.

3-207 Use of Quantitative Methods and IT in Contract Audits **

Make optimum use of all audit techniques that will increase the efficiency and effectiveness of the audit effort. These include the use of Gen AI, data analytics (such as improvement curves techniques, graphic and regression analysis, statistical sampling), and the evaluation of costs and accounting systems making use of information technology (IT) equipment. Suggestions for applying these techniques to various audit situations are provided through applicable guidebooks.

3-208 Assessment of Internal Controls at Service Organizations **

During a risk assessment, auditors must determine if a contractor uses a service organization—an entity providing services that affect the contractor's financial data. An in-depth understanding of the service organization's controls is required only if all three of the following conditions are met:

- The transactions it processes are material.
- It is integrated into the contractor's information system.
- Interaction is low, meaning the service organization independently processes transactions without needing prior authorization for each transaction.

To gain this understanding, the auditor should review the service agreement and the service auditor's report. If necessary, the auditor can also examine other documents (including user manuals, system descriptions, technical manuals, other policies and procedures, and any reports prepared by the user or service organization's internal auditors relating to internal controls over transactions and processes), visit the service organization, or request an assist audit. The findings must be summarized to show their effect on the audit's scope.

3-209 Contractors Use of Scanned Images **

a. Branch Offices that rely on contractor scanned images as audit evidence should be aware of FAR requirements regarding scanned images. FAR allows contractors to duplicate and store

original records in electronic form. Contractors are not required to maintain or produce original records during an audit if they provide photographic or electronic images of the original records and meet the FAR requirements.

b. FAR allows contractors to transfer images from one reliable computer medium to another if the transfer process maintains the integrity, reliability, and security of the original data and an audit trail is retained.

c. Audit teams should be aware of the types and amounts of hard copy records that are scanned in at contractors under their cognizance and plan any necessary procedures to validate the accuracy of the scanned images. Audit teams should refer to the Information Reliability Guidebook for additional information.

d. The procedures performed during the testing of scanned images are intended to provide reasonable assurance that we can rely on the scanned images during our audits (e.g., incurred cost, forward pricing, etc.) We generally will not perform testing to the level required to determine the adequacy of system internal controls. If an auditor believes these tests of controls are necessary, the auditor should elevate their concerns to management to determine if it is appropriate to perform such tests. Without testing internal controls (access and storage controls) related to the contractor's imaging process, there is going to be a risk that the records reviewed could have been altered since the time the testing was performed. This risk is similar to the risk that the contractor has altered their hardcopy documents from the time of creation to the time of audit. Therefore, the auditor should consider fraud risk indicators and other known risk factors in determining whether there is a material chance that the scanned images have been altered since the time of testing. If the auditor identifies significant concerns, the auditor will need to decide whether a scope limitation exists relevant to the lack of testing access and storage controls.

3-300 Briefing of Contracts and Requests for Proposals **

3-301 Introduction **

This section provides guidance on:

(1) briefing the provisions, clauses and criteria found in contracts and requests for proposals which may affect the contract audit workload or other aspects of the FAO's work;

(2) notifying contracting officers of contract provisions which may impede effective contract audit or contract administration; and

(3) implementing the DoW operations security (OPSEC) program.

3-302 Contract Briefing System **

3-302.1 Objective of a Contract Briefing System **

Contract clauses should be reviewed by both the auditor and contractor to identify the criteria and evaluate the requirements affecting the allowability, allocability and reasonableness of costs billed to the Government. Copies of contracts and modifications are available from the contractor, Government contract officials, and Electronic Data Access (EDA). As a matter of convenience, a "conformed" version of a government contract may be available from Government contract officials, that incorporates all modifications or changes made to the original contract since it was issued, but only through the date this version is printed or prepared. Contract briefs should summarize contract provisions relevant to audits of progress payments,

costs incurred, Truth in Negotiations (TIN), and interim voucher advisory services. The Contract Briefing Tool developed by DCAA Chief Digital and AI Office (CDAO), streamlines contract briefs by automatically extracting and highlighting essential data from USASpending, facilitates contract briefs preparation. Auditor prepared briefs may be maintained in a permanent file and updated as contract modifications are received, or at the time of audit depending on frequency and type of reviews performed.

3-302.2 Auditor Reliance on Contractor Prepared Briefs **

a. If contractor policies and procedures require contract briefs to be prepared and it is efficient to do so, evaluate whether reliance can be placed on these briefs. If reliability of contractor briefs has not been determined for the period under audit, the auditor should test a selection of contractor briefs for significant contracts against contract documents for accuracy. Significant contracts not adequately briefed should be briefed by the auditor for special or significant contract terms that impact reimbursement or allowability of costs incurred and to be considered in audit scope. If reliance is placed on contractor's briefs, the basis should be documented and placed in the permanent file.

b. If the contractor does not brief contracts, or if reliance cannot be placed on the contractor's briefing process, the auditor should consider reporting this condition as a material weakness and prepare briefs of the affected contracts.

c. Auditor-prepared contract briefs or the auditor's reliance on contractor's briefs will be documented in the permanent files or audit working papers as appropriate. Briefs should be reviewed by the auditor to ensure that required clauses are included, and clauses that are contradictory or confusing are clarified. Audit leads for special analysis can also be identified at that time. Contracts with unique terms affecting allowability may require special consideration during audits of direct or indirect costs, or accounting systems.

3-302.3 Adequacy of the Contractor's Briefing System **

If it is more efficient for the auditor to brief the contracts, do not perform additional testing to evaluate the contractor’s briefing function for placing reliance on contractor briefs. Consider the following when evaluating the contractor's briefing function.

a. Training. The contractor should adequately train employees involved in briefing contracts. To assess the adequacy of training, the auditor should review training policies/procedures, course materials, written documentation confirming that employees have been trained, and personnel records to determine prior qualifications, or interview employees to determine the extent of their training.

b. Policies and Procedures. The contractor should have policies and procedures to describe what should be included in briefs, who will prepare briefs, who will approve them, and how they will be utilized for the various purposes for which they are prepared. The contractor may have templates or forms which prompt employees for common briefing items. Contract briefings generally include a synopsis of all pertinent contract provisions, such as contract type, amount, product or services to be provided, applicable cost principles, performance period, OPSEC measures, rate ceilings, advance approval requirements, precontract cost allowability or limitations, and billing limitations.

3-303 Requests for Proposals **

a. When audit of a contractor's price proposal has been requested, the Branch Office will brief the related request for proposal (RFP) to identify requirements that may affect the audit. The PCO should provide the applicable portions of the solicitation (RFP or request for quotations (RFQ)) with the audit request, particularly those describing requirements and delivery schedules.

b. Include the auditor's briefing notes in the working papers for the proposal engagement. If OPSEC measures are required, promptly inform all DCAA personnel who may be affected.

3-304 Reporting on Provisions Impeding Effective Contract Audit or Administration **

3-304.1 Examples of Impeding Provisions **

The following are provisions of contracts or RFP/RFQs that may impede effective contract audit or contract administration and are therefore subject to special reporting:

a. Defects in or omissions of required contractual provisions, such as omission of contract clauses requiring contractors to maintain adequate accounting records when cost determinations are a factor or providing the Government the right to audit.

b. Undesirable or ambiguous provisions, such as provisions for rate changes or price redeterminations at times or under conditions which cannot be implemented or efficiently administered.

c. Provisions which exclude portions of costs from verification, limit in any way the Government's right to audit, or restrict the scope of the audit.

d. The award of a contract type incompatible with the contractor's accounting system (see FAR Companion Guide FC 16.102).

e. Contracts having the characteristics of cost-plus-a-percentage-of-cost contracts, such as negotiation of contract value after contract completion.

f. Any other provisions which are not clearly stated and which may lead to subsequent misunderstanding or dispute in the audit or in the administration of the pricing provisions of the contract.

g. Provisions that are contradictory to or inconsistent with existing statutes or regulations, including Cost Accounting Standards, and/or contractor practices, such as requiring that direct contract costs be allocated to multiple contracts.

3-304.2 Reporting to the Contracting Officer **

If you find provisions in a contract or RFP/RFQ that may impede effective contract audit or administration, promptly notify the contracting officer, suggesting appropriate action. You should also coordinate with the ACO to obtain clarification on contract terms that are new to you, unclear, or you have questions on intent.

3-304.3 Internal DCAA Reporting **

a. Differences between the contracting officer and the auditor which cannot be resolved locally will be referred to the Directorate Director by way of the Regional Audit Manager. The referral will advise the Directorate Director regarding the basis of the disagreement and the actions taken to resolve the issue. The Directorate Director will then decide whether direct communication with the procurement office responsible is needed.

b. Where corrective action is not taken within a reasonable time and where the issue involved is deemed to have policy effect or may have a significant monetary impact, the Directorate Director will submit a report to Headquarters, Attention CCLD, containing the following information:

(1) Summary of the situation and actions taken by the Directorate Director.

(2) Summary of discussions with the contracting officer.

(3) Any other pertinent information.

(4) The Directorate Director's recommendations.

c. Headquarters will advise the Directorate Director of the actions taken on each case and the final resolution of the problem area.

3-305 DCAA Implementation of the DoW Operations Security (OPSEC) Program **

a. The DoW OPSEC program, policy, and responsibilities are contained in DoW Directive 5205.02E. The OPSEC program applies to DoW contractors participating in the DoW Industrial Security Program when such measures have been determined essential for the adequate protection of classified information with respect to a specific classified contract. The Head of the responsible DoW Component makes the determination as to the applicability of the OPSEC program requirements to the contract. Thus, the OPSEC program ensures the protection of DoW programs, operations, and activities by maintaining essential secrecy through the protection of classified materials and information. The guidance which follows constitutes DCAA's implementation of DoW Directive 5205.02E.

b. Normally, Branch Offices will not need to have direct access to information in the DoW Directive. Required OPSEC measures may have an impact on the contractor's pricing and costing of a contract. Also, DCAA personnel must comply with any OPSEC measures required by a contract or RFP/RFQ.