

DCAAM 7640.1; DCAA CONTRACT AUDIT MANUAL

Chapter 10

Report Writing

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10-000 Preparation and Distribution of Audit Reports **

10-001 Scope of Chapter **

This chapter discusses the importance of DCAA audit reports and provides guidance in preparing quality reports. It describes the elements common to all audit reports. The audit report templates generated in CaseWare are the standard report formats to be used for each audit activity code. Additional and pro forma language is included in the report shell, working paper A-00, and working paper A-01 available on the intranet.

10-100 Section 1 - Audit Report Quality **

This section emphasizes the importance of audit report quality and describes the characteristics of a quality audit report. It also includes a brief discussion of some important report writing techniques to assist auditors in preparing quality audit reports.

10-101 Introduction **

a. Users should recognize that the "standard" report language is provided as an example and is generally not mandatory wording. Some sections like the Management and Auditor Responsibility paragraphs must adhere to the assigned template language based on the type of opinion being issued. The audit team should exercise judgment in tailoring report language to the situation being reported.

b. The written audit report is presented in a way that complies with our professional standards and is necessary to make the auditor's findings and recommendations less susceptible to misunderstanding. A written report:

- communicates our results to responsible Government officials and occasionally to higher levels in the Department of Defense,
- is used in negotiation proceedings, and
- facilitates follow-up to determine whether appropriate measures have been

taken in response to the auditor's findings and recommendations.

10-102 Importance of Audit Report Quality **

The importance of the DCAA audit report cannot be overemphasized. Audit reports are the principal means of conveying our audit results to contracting officers and other interested parties. Because effective reporting is a major factor in building and maintaining confidence in DCAA audit activities, we must continually strive to produce high quality reports. All members of the audit team and the professional support staff must exercise due care in preparing, reviewing, and processing reports to provide reasonable assurance that our reports contain no grammatical and mathematical errors, and no errors of fact, logic, or reasoning.

10-103 Characteristics of a Quality Audit Report **

The DCAA audit report must satisfy [Generally Accepted Government Auditing Standards](#) (GAGAS) as outlined in [2-400](#) and [2-600](#). A good report will present the scope and results of a quality audit in an objective, concise, complete, and easy to understand manner. Report findings and conclusions must be accurate, reasonable, and supported by sufficient objective evidential matter, while not being unfair or misleading. The report should also reflect common sense and good judgment in dealing with materiality, the level of detail provided, and the requestor's needs.

10-103.1 Timeliness of Reports **

a. To be useful, the audit report must be timely. Reports are to be issued on or before the dates specified and, in any event, as promptly as possible. The audit team should realize that every day of delay in issuing an overdue report may diminish its value. Therefore, the audit team should plan and conduct the work with the objective of reporting the results by the report due date.

b. The auditor should communicate significant matters to appropriate officials during the course of the audit work. While this is not a substitute for a final written report, it does alert officials to matters needing correction at an earlier date.

10-103.2 Report Content **

a. The audit report should be easily understood. The audit report should clearly identify the subject matter which can be the cost element, area, system or the proposal being audited or having agreed-upon procedures applied. The audit report should also identify the audit criteria used to evaluate the subject matter and present the auditor's findings and conclusions objectively and completely, with appropriate support for positions taken. The overall results of the audit are conveyed in the audit opinion. It should also provide recommendations for improvement, whenever appropriate.

b. The audit team should ensure they produce reports that contain no errors of fact, logic, or reasoning during each stage of report preparation, review, and processing. Reports must be accurate, fair and impartial to assure readers that the information is reliable (i.e., one inaccuracy can cast doubt on the validity of an entire

report and can divert attention from the substance of the report). Reports should be concise but still provide all the necessary information to support the findings, conclusions or recommendations. They should also provide convincing, but fair, presentations in proper perspective. Sufficient amounts of background information should also be included, as the reader may not possess all the facts that the auditor has. The auditor should state conclusions or opinions clearly and specifically as all audit findings must be presented so they can be easily understood.

10-104 Good Writing Techniques for Effective Audit Reports **

a. A very important aspect of performing a quality audit is communicating the results of that audit. Good fieldwork and analysis may be misunderstood if the audit report does not effectively communicate audit conclusions. Our customer is interested in a clear and concise audit opinion, with supporting data that is easily understood.

b. Natural writing ability is not necessary for effective audit report writing. Effective audit report writing first requires knowledge of good writing techniques, which can be acquired through training and practice.

c. Effective audit report writing requires selection of efficient ways of collecting the information needed for the report. CaseWare provides for the audit planning, documentation of the audit performance, and the subsequent audit conclusions to be written directly in the electronic working papers. These working papers should be effectively used to draft the report. This process also involves keeping the needs of the reader in mind throughout the audit so that it addresses all relevant issues and the auditor records the results in a similar format used to prepare the report.

10-104.1 Planning the Audit Report **

a. Planning the report begins with the receipt of a request for audit and/or establishment of the assignment. Planning continues throughout the audit process, from the development of the audit program to the completion of the working papers and finally, the report itself. The report will not be effective unless the needs of the requestor are clearly understood and addressed. If there is any confusion regarding the request or the special needs of the requestor, the auditor should call the requestor immediately for clarification.

b. Auditors should determine what is required for the audit report early in the audit process. We need to ensure that the audit program is properly designed so all necessary information is obtained during the course of the audit. Working paper packages should contain lead working papers supported by sufficient evidence to support the conclusions made. A detailed summary provided on each lead working paper should be used to draft the report. This will save time since the structured notes to the audit report are being written at the same time the audit is being performed. The copy and paste software function easily transfers the lead sheet summaries to the draft audit report.

c. Interim supervisory reviews performed throughout the process will save

auditor and supervisory time during the report writing and review phases. Interim reviews are beneficial since corrections and revisions may be made timely and supporting notes are verified for use in the report. This will result in a properly documented working paper package, containing all of the evidence of a well-planned audit, and working paper notes which can effectively be incorporated into the report.

d. Writing an audit report requires original writing combined with suggested pro forma language. Use the suggested paragraphs and carefully revise them to describe the audit situation.

10-104.2 Drafting the Audit Report **

Pro forma language contained in CaseWare is intended to incorporate all required elements into the report. However, any report language example (CAM or CaseWare) should be modified as appropriate. Since the pro forma reports are for general use, the language must be tailored to reflect each audit. For reports not available in pro forma format, the auditor must ensure that all required elements are included. The general arrangement of the report and the report contents are in Chapter 10, section 200. A very important part of the writing process is revision. If possible, prepare the draft report simultaneously with the audit being performed. This permits ample time for reviews and revisions by the writer and others.

10-104.3 Clarity and Precision in the Audit Report **

a. The audit team should review the draft report to see if it is complete and balanced and that Headquarters' guidance is followed for the type of audit report being issued. For customer requested assignments, check the request for audit to see if all special items have been addressed. Then determine if the report has the appropriate level of detail under the circumstances. Keep in mind that the report will be read by persons who are not auditors or accountants. Consider the following questions:

- Does it read well and make sense to those outside of the auditing profession?
- Does it read well to readers who may not be familiar with a particular contractor's practices or audit history?
- Will it prompt the desired action?

A good audit report is clear and concise, expresses a well-founded audit opinion, meets the customer's needs, and is in accordance with the Headquarters' guidance and GAGAS.

b. Make the report concise, but ensure it provides enough detail to be useful. This includes making sure exhibits and supporting schedules are adequate. When determining the amount of detail to include in the report, keep in mind the report is generally written for more than one recipient or customer. Consider the following:

- Does it provide enough information for a clear and complete explanation of the audit results and recommendations?

- Do the customers have the same background?
- How knowledgeable are the customers about the subject?

c. Verify the facts and check the calculations within the report. Ensure that figures in the audit agree with the structured notes. Review tables for any math errors. Technical errors cause confusion for the recipient and can significantly weaken a report.

d. The writer of the report may unintentionally be reading what they meant to say rather than what is actually there. If time permits, allow the report to "cool," preferably overnight, so that the draft may be reviewed with a critical eye. If this is not possible, consider having a peer review the report.

e. Reread the report looking for grammatical and spelling errors. Use the spell-check feature on the word processing software to help. Make sure that all names are spelled correctly. Errors in spelling and grammar also weaken a report.

10-104.4 Responsiveness to the Customer in the Audit Report **

When writing the report, focus on the customer's needs. In addition to meeting GAGAS requirements, the report must be useful to the primary report recipient. To accomplish this, focus on the customer. Remember that a report accomplishes nothing unless the reader becomes better informed or is moved to action.

10-104.5 Readability of the Audit Report **

a. A general rule of good writing is to divide the subject into topics and cover each topic in a paragraph. A further principle of good business writing is to make sure each paragraph is relatively short and contains the following characteristics:

- Keep sentences short (one idea per sentence) or break into multiple sentences when necessary,
- Keep the subject, verb, and object close together,
- Start paragraphs with conclusion; follow with details,
- The opening sentence establishes the topic,
- The middle section should explain, illustrate, amplify or clarify the topic,
- The last sentence can repeat or summarize while indicating further direction, providing a transition, or connector, to the next paragraph,
- The opening sentence in the next paragraph announces its own topic and completes the transition from the preceding paragraph, and
- One topic per paragraph (several paragraphs can include the same topic with additional information, but only one topic per paragraph).

Choose your words and phrases carefully. Use short, simpler words and phrases for easier reading. Auditors should also consider varying sentence lengths. Break long sentences into shorter ones. The average sentence length should be about 17 to 20 words.

b. Audit reports are persuasive documents that offer and support an opinion. Reports should be written using a courteous, objective and professional tone. Avoid using negative and condescending language, or any words or phrases that might generate defensiveness or opposition. Statements should be expressed in a positive form.

c. When possible, write in the same manner as you speak. Imagine talking to the reader in a professional situation. Do not try to inflate the report with impressive words. Use ordinary words that readers easily understand. Use action words and make writing direct rather than elaborately indirect.

d. Use a variety of punctuation (beyond the period and the comma) to control emphasis and to help avoid monotony. Use the dash only when a more common mark of punctuation seems inadequate. The variety of punctuation provided can help stimulate the reader's imagination, which aids in the delivery of the message.

e. Avoid using jargon in reports. Jargon is a specialized or technical language used by a select group and can be difficult for persons outside of that group to understand. Consider these examples of bureaucratic jargon and the plain English replacements:

<u>Bureaucratic Jargon</u>	<u>Plain English</u>
afford an opportunity	let
due to the fact that	because
monetize	give a dollar value
utilize, utilization	use

Jargon also can be any language which clouds a sentence's meaning by hiding its main subject and verb. Ensure that the sentences in our report can be clearly read and understood. Compare the following sentences:

Difficult:

Excess starting load costs were allocated by the contractor to the terminated portion of the contract on the basis of an unrealistically low projection of the labor costs which would have been incurred on the terminated units.

Better:

Because the labor cost estimate was too low, the contractor allocated too much start-up cost to the terminated contract.

Jargon can also occur when common words take on a special meaning within a profession, and create confusion in the minds of those outside that profession. For example, auditors frequently use the verb "monetize," meaning, to them, to determine a monetary value. This usage is inaccurate. "Monetize" actually means (a) to coin into money, or (b) to legalize as money. We should not be using monetize in an audit report. Search for substitutes, such as "We have calculated the dollar value of the technical recommendations".

Acronyms or abbreviations sometimes cause confusion for readers. If an acronym is used frequently and is commonly understood by the report users, provide the complete words the first time followed by the acronym in parentheses, i.e., total quality management (TQM). If the acronym is more familiar than the words; provide the acronym first followed by the words it stands for in parentheses, i.e., NASA (National Aeronautics and Space Administration).

Be careful about using words correctly in audit reports. Some words are frequently used incorrectly, such as "unsupport" and "unresolve". However the verbs "unsupported" and "unresolved," when used as adjectives, are perfectly acceptable.

Correct:

The contractor's tooling costs are unsupported.

Incorrect:

We un-support the tooling cost.

In addition, as a Government agency, we are governed by the Plain Writing Act of 2010. This law requires that federal agencies use "clear Government communication that the public can understand and use". Information on the law can be found at <http://www.plainlanguage.gov/>.

10-104.6 The Visual Impact of the Audit Report **

a. Visual presentation is an important part of communicating. Auditors should use headings to set off main points and "bullets" to highlight several items where one item does not have priority over the other item. For example, a bullet list is effective for listing points because:

- each point is emphasized,
- the items are easier to see, and
- there is more space around each point.

Use a numbered list when the points must be taken in order or when some items are significantly more important than others.

b. Charts, graphs, and tables may be used to summarize large amounts of data in a meaningful and concise manner. They add variety to the report and may easily be

developed from available Agency software. Auditors are encouraged to use charts, graphs, and tables where they result in increased clarity and understanding of complex audit findings.

c. The effective use of white space (a term from printing meaning that part of the page that does not have any ink printed on it) can make a report more inviting to the reader. If a paragraph has more than 10 to 15 typed lines, consider dividing it into two paragraphs. Form separate paragraphs by grouping like ideas together. Highlight extracts from regulations or the contractor’s policies by separating and indenting them as a block. If paragraphs or other items are numbered or lettered, ensure that there are at least two paragraphs or items, i.e., there should be a “2” for each “1” and a “b” for each “a”.

10-104.7 Active and Passive Voice **

a. Auditors want to take responsibility for the audit work we performed. One way of doing this is to use the active voice when writing reports (with the exceptions discussed in paragraph d below). Using the active voice in writing can improve clarity, creates a better understanding and is more effective. Writing in the active voice forces the writer to state who is doing the action. Use of the active voice makes the sentence stronger and easier to visualize and understand.

b. One way of ensuring we do not write using passive voice is to be aware of the characteristics. A passive sentence includes:

- the verb form of “to be” (is, am, are, was, were, be, been, or being),
- a past participle (verb ending in –ed or –en), and
- a prepositional phrase beginning with “by” (which can be implied).

All characteristics must be present or implied for passive voice.

If you find passive sentences in your report, you should consider converting them to active voice by:

- finding or supplying, if implied, the doer of the action,
- placing the doer in front of the verb, and
- using an active verb form.

c. Examples of passive and active sentences are provided in the table below.

<u>Passive Voice</u>	<u>Active Voice</u>
The costs were questioned.	We questioned the costs.
The contractor will be provided a copy of the audit report.	The contracting officer will provide the contractor a copy of the audit report.
The report was written by the auditor.	The auditor wrote the report.

d. Good technical writing often requires use of the passive voice. Use of the

passive voice is appropriate when the emphasis is on the effect of the action, not the person performing it (i.e. “Bad debts are questioned,” not “The auditor questioned bad debts,” or “FAR 31.205-3 mandates the questioning of bad debts.”). The passive voice is appropriate when the doer of the action is understood and perhaps not important to what is being said. As a rule, use of the passive voice should be limited to situations in which the doer is:

- unknown,
- unimportant,
- deliberately de-emphasized, or
- obvious to the customer.

These situations can be quite common in audit reports and other technical writing.

10-104.8 Misplaced Modifiers and Pronouns **

a. A “modifier” is a word (usually an adjective or adverb), a phrase, or a clause that modifies the meaning of another word or phrase. A modifier makes the meaning more specific. Modifiers should be placed so that they are close to the words they define. When a modifier is too far from the word it modifies, the reader may connect the modifier to some other word. The reader may also be confused when a modifier ambiguously appears to modify two words. Too many modifiers can weaken writing. Strings of words or phrases will often bury the subject and confuse the reader.

Misplaced:

He only found two mistakes (As placed in this sentence, “only” can modify the pronoun “he” and the sentence appears to mean, “He did nothing other than finding two mistakes.”).

Correct:

He found only two mistakes (As placed in this sentence, “only” modifies “found”; we do not know what else he did, but he found no more than two mistakes.).

b. Similarly, pronouns are often misplaced. Pronouns are substituted for nouns for brevity and to reduce repetitiveness. The antecedent of a pronoun is usually the closest noun preceding the pronoun which must agree with it in person and number.

10-104.9 Tone **

The tone of the report should be objective, professional, and courteous. Use conversational English, which is a relaxed, professional style. Report writing can be somewhat informal in tone yet remain professional and businesslike. Keep in mind that the goal is to get a favorable reaction. Avoid using accusatory, inflammatory language. This is likely to cause defensiveness and opposition. When presenting problem areas, the report should emphasize improvements needed.

10-104.10 Final Steps **

a. Before submitting the report for supervisory approval or for peer review, check again to ensure the report complies with Headquarters' guidance. The draft report should be cross-referenced to the working papers. This ensures that the audit conclusions are supported and easily found.

b. Be sure to use the Spelling Check function prior to submitting the report for peer or supervisory review; however, do not rely solely on this function to find all errors within the report.

c. A peer review can provide a critical review for content and for good writing techniques. However, the peer reviewer should not rewrite the report in his or her own personal style. Another point of view can help develop a final draft needing little or no revision by the supervisor.

d. If a peer reviewer is not available, you should consider putting the report aside for a day, if time allows, then rereading the report. If it does not make sense to you when reread, it will probably not make sense to the reader either.

e. If the supervisor requires the report to be modified, ensure that the change is reflected throughout the entire report. If significant changes are made to exhibits and schedules, go back and request the peer reviewer to check both the "carry" of numbers from schedules to text and the mathematical accuracy of the report.

10-105 After the Report is Issued **

While the audit report is the final product of our work, it is not necessarily the final step in the audit process. Once the report is issued, we should still remain in contact with the requestor to determine if our report met his or her needs. We also may be required to assist the requestor at negotiations. See further instruction on Negotiation Attendance in [15-400](#).

10-200 Section 2 -Audit Report Format and Contents (General) **

10-201 Introduction (Reports-General) **

a. This section discusses DCAA requirements governing audit report content; details the general administrative and format requirements of audit reports; lists and defines the elements of audit reports in their order of appearance; summarizes DCAA policy regarding protection of report information; and provides guidance on audit report distribution. It also explains the circumstances under which supplemental audit reports should be issued and describes the recommended format for these reports.

b. The guidance included in this section is general in nature and applies regardless of the type of audit report being prepared. Specific report preparation requirements for various types of audit assignments are discussed in the chapter pertaining to that audit type and the shell report. Shell/Pro forma reports, working paper A-00 and A-01, which

include standard paragraphs applicable to specific reports, are available on the DCAA Intranet and in CaseWare.

c. The pro forma report templates generated by CaseWare for each assignment code are the principle source for matters like font type and sizes, spacing within reports, margin sizes, etc. When minor variations exist between the CaseWare template and templates provided on the intranet or in illustrative figures in this chapter, the CaseWare template should generally be followed. When significant discrepancies are noted (e.g., a CaseWare template is missing a section required in every audit report per [10-204](#)) notify DCAA Headquarters PAC Division.

10-202 Reporting Standards (Reports-General) **

To satisfy Government reporting standards, there must be a written record of the results of each engagement ([2-400](#) and [2-600](#)). Normally, when performing an audit this requirement is satisfied by issuing an audit report. However, certain situations may call for preparation of a Memorandum for Record (MFR) (refer to [DCAAM 5020.1](#), Correspondence Manual) rather than an audit report. For example, this may be appropriate upon completion of an individual overhead account audit which represents only one portion of a final overhead audit report to be issued later or interim testing such as real time testing of labor or materials. Other situations, such as the performance of advisory services (e.g. completion of an evaluation of a final voucher, providing confirmation of rates or other pricing data that have already been determined, etc.), may call for preparation of a Memorandum for Administrative Contracting Officer. Typically, MFRs and other memorandums prepared as a written record of the results of an engagement contain contractor proprietary information. Therefore, such memorandums not containing classified information must be marked "CUI". Under no circumstances will audit reports be addressed "to the file" or "for the record"

10-203 Report Administrative Requirements (Reports-General) **

10-203.1 Paper **

Print reports on 8 1/2 by 11 inch paper. If wider sheets are needed for tabulations, reduce them to 8 1/2 by 11 inches and print in landscape. The paper should be white and of a grade, weight, and substance as available through normal supply channels for printers and copiers.

10-203.2 Margins **

Margins should be uniform; e.g., allow 1 inch for left and right margins and at least 1 inch at the bottom of the page. Leave at least two lines between the last line of typing and the page number.

10-203.3 Typing **

a. Agency designated computer equipment and word processing software

should be used, to the extent possible, to prepare all portions of the report.

b. Font type and sizes on the title page should remain the same as the CaseWare shell/pro forma report. Size 12 “Times New Roman” font type should be used in the remainder of the report. When necessary to fit all the data in a report table, the font size for the entire table may be reduced to size 10.

c. In the report, it is preferable for each sentence to be followed by one space, however, two spaces is acceptable as long as one space or two spaces is used consistently across the report.

10-203.4 Executive Summary Typing and Paragraphing **

Font type and sizes on the Executive Summary page should remain the same as the CaseWare shell/pro forma report. The “EXECUTIVE SUMMARY” title should be centered, bold type, upper case, and placed with a top and bottom border of 1 1/2 pt. width. Executive summary paragraph subtitles should be regular type, upper case, underlined, and placed at the left margin. Executive summary paragraphs should not be indented. There should be two lines between Executive summary paragraph sections.

10-203.5 Report Paragraphing **

a. Report section titles should be bold, upper case and placed at the left margin. In addition, the “AUDIT REPORT AUTHORIZED BY” section title should be followed by a colon (see Figures [10-2-3](#) and [10-2-4](#)). When a paragraph subtitle is appropriate, place it on a separate line. Paragraph subtitles should be bold and placed at the left margin. Subparagraph titles within a subsection will be in italic, upper case, and placed at the left margin.

b. There should be two lines between report sections.

c. The first sentence in a paragraph should be indented no more than one half of one inch (tab at 0.5”) from the left margin.

d. The subparagraphs within “MATERIAL NONCOMPLIANCE” and “SCOPE LIMITATIONS” will be bulleted.

e. The subparagraphs within “EXPLANATORY NOTES,” will be lettered or numbered if there are two or more; when there is an “a”, there must be a “b”, etc.

10-203.6 Date **

Express the month, day, and year of the audit report in the order named (for example, December 16, 20XX). The report date must be consistent with the FAO manager’s digital signature date, except for revised reports, as described in [10-213.6](#).

10-203.7 Report Numbering **

The audit report number is the assignment number prefixed by the regional

organization code (RORG) of the Branch or Resident Office. The RORG code should be designated as 4 digits. No additional alphanumeric characters are to be added to the audit report number, except for supplemental and revised audit reports ([10-213](#)).

10-203.8 Header and Footer **

a. The DCAA graphic headers (see Figure [10-2-1](#)) should be used on the report title page, the table of contents page, and each page of the executive summary. The graphic headers should remain the same as the CaseWare shell/proforma reports. A separate header should be included on each page of the report starting with the report narrative (“REPORT ON PROPOSED”), which states “CUI” (see [10-203.12](#)), the audit report number, and the date in bold font. “CUI” should be centered at the top of the header. The audit report number should be on the left margin, while the date is to be on the right margin of the same line. The audit report number and the date should have a bottom border of 1/2 pt. width. The table of contents page and the executive summary page will include both the graphic header and the audit report number and date. The header on the subsequent pages should include “CUI”, the report number, and the date without the graphic header.

b. The DCAA graphic footers (see Figure [10-2-1](#)) should be used on the report title page, the table of contents page, and the executive summary page. The footer should include “CUI” (see [10-203.12](#)) centered in bold font. The graphic footers should remain the same as the CaseWare shell/pro forma reports. Starting with the report narrative, the footer should include a page number and “CUI” centered in bold font without the graphic footer. Page numbers should be in regular type and placed at the bottom center of the page followed by one line, above “CUI”. The report title page should also include a CUI designation indicator. Do not number the title page or table of contents pages, but place a number on the executive summary page. Begin numbering pages with the number “1”. Consecutively number pages through the report. Do not offset page numbers with periods, dashes, or other punctuation. Examples of report numbering are contained in the CaseWare shell/pro forma reports. If DCAA assist audit reports, Government technical reports, or other documents that are individually numbered are included in a report as appendixes, it is necessary to number only the first page of the document. In cases where many appendixes are included in a report, it may be convenient to preface each appendix with a blank sheet indicating the title of the appendix and page number, rather than making any annotations on the particular document.

10-203.9 Electronic Distribution of Reports **

a. The final version ([4-407d\(3\)](#)) of the report to be issued must be digitally signed and secured. Only auditors with appropriate signature authority (DCAAR 5600.1, “Delegation of Signature Authority for Audit Reports and Other Related Documents”) may sign audit reports ([10-209.b\(1\)](#)).

b. To the maximum extent possible, all written correspondence and audit reports should be transmitted electronically to requestors and customers via e-mail. DCAA e-mail to DoD components will be sent only through Defense Information Systems

Agency (DISA) supported communications channels to ".mil" addresses. Procedures for electronic communications with non-DoD customers should be determined on a case-by-case basis after consultation with the customer but should use only official US Government email addresses. Transmission of "CUI" material using private and commercial service providers is prohibited.

c. It is critical to communicate with customers to determine the version and brand of software they are using. Based on customer requirements, choose the appropriate format and version that provides the best opportunity for the customer's efficient use of the audit report and any accompanying files or attachments. If the customer requires the use of compression technologies, specific arrangements should be made to ensure delivery. The possibility exists that the e-mail will not be delivered to the recipient as many networks strip compressed files from incoming e-mails because of virus concerns. The regional IT staff should be consulted if problems arise while preparing files for transmission or during the electronic transmission.

d. Cover e-mail messages for audit reports should have "CUI" banner markers at the top and bottom of the email (see [10-203.12](#)), and include only administrative-type information. Cover message subjects will include contractor name, customer reference number (if any), and assignment subject (e.g., XYZ Company-DCMA Case No. 05E100005 CAS 410 Noncompliance). Cover messages will also provide information in the body of the e-mail, such as:

- comment that the audit report is marked "CUI",
- name of document attached,
- audit assignment number for reference purposes (if not already in the filename),
- software used to prepare the report; e.g., Adobe Acrobat X (version),
- comments regarding the validity and authenticity of the electronic signature,
- if applicable, instructions for opening the compressed file(s),
- if applicable, whether and why an electronic report is incomplete, and
- a cautionary note regarding the intended recipients and use of the e-mail (use the example provided below).

An example cover message, which would be placed between "CUI" banner markers, is as follows:

This email serves as transmittal of content containing CUI. It is marked as CUI and carries applicable markings in the email body and attached document.

[Note: do not include the following statement on e-mails related to Field Detachment reports] If the attached audit report includes findings, please e-mail the Price Negotiation Memorandum (PNM), Contracting Officer Final Determination (COFD), or other applicable disposition information to dcaa.belvoir.hq.mbx.dcaa-owd-pnm@mail.mil.

Attached is subject audit report [provide file name] which is prepared in [specify the specific version of Adobe Acrobat]. The attached report is Controlled Unclassified Information. The attached electronic audit report includes a digital signature. A digital signature addresses security concerns by providing greater assurances of document integrity, authenticity and non-repudiation. As the recipient of the report you can verify that the content of the electronic report has not been altered since the signature was applied (integrity). If desired, you can also validate document authenticity by verifying a signer's digital identity. The individual who has signed the document cannot deny the signature (non-repudiation). Signature validation may require acceptance of the issuing authority.

The report was compressed using [specify the software used and whether the file was saved as a self-extracting file or not]. To extract (decompress) the report [provide specific steps to the user on how to extract the file].

The report is incomplete [provide reasons why (e.g., hard copy forthcoming) the report is incomplete to the customer].

If you have difficulty opening the audit report document or have other questions, please contact [provide points of contact to the customer, including telephone number and e-mail address].

IMPORTANT: *This e-mail, including all attachments, constitutes Federal Government records and property that is intended only for the use of the individual or entity to which it is addressed. It also may contain information that is privileged, confidential, or otherwise protected from disclosure under applicable law. If the reader of this e-mail transmission is not the intended recipient or the employee or agent responsible for delivering the transmission to the intended recipient, you are hereby notified that any dissemination, distribution, copying or use of this e-mail or its contents is strictly prohibited. If you have received this e-mail in error, please notify the sender by responding to the e-mail and then delete the e-mail immediately.*

10-203.10 Citations of Legal Opinions **

Audit guidance is based on Generally Accepted Accounting Principles (GAAP),

applicable Government regulations (e.g., FAR, CAS, & DFARS), and rulings of Boards of Contract Appeals and Federal courts. Often the authoritative source of the guidance (e.g., a board or court case) is cited in CAM, DCAA Audit Guidebooks, and/or specific audit guidance provided by Headquarters in support of the recommended audit conclusion. The guidance stated in CAM and specific audit guidance, including relevant legal citations, should be employed in the audit and explained in the audit report to the extent necessary to support the audit conclusions. When the audit team believes it is necessary to include in the audit report a legal citation not discussed in CAM or Headquarters guidance, the citation must be formally coordinated, through the region, with the Policy group at Headquarters. The Headquarters division responsible for the audit issue will coordinate with our legal advisors and the FAO to ensure that the citation is relevant and properly applied.

10-203.11 Immaterial Amounts/Costs Subject to Penalty/Elimination of Cents

a. Only material amounts of questioned costs should be displayed in audit reports. Noncompliances are material if individually or in the aggregate, they could reasonably be expected to influence relevant decisions of intended users that are made based on the audited information ([2-303.6a](#)). For DCAA, the intended users are generally contracting officers. Materiality has a quantitative component (a purely mathematical consideration of the volume of dollars) and a qualitative component (any other consideration that would influence a contracting officer's decision.) A quantitatively immaterial amount may be qualitatively material if it relates to indicators of fraud, sensitive accounts, or cost elements where a contracting officer expressed particular concern. It is also important to consider noncompliances in the aggregate. For example, questioned costs on one G&A account may be immaterial, but when combined with questioned costs on other G&A accounts may result in material questioned G&A costs.

b. When unallowable costs are identified during the audits that are subject to penalties, they must be communicated to the ACO regardless of materiality ([6-609.2b](#)). The communication of the expressly unallowable costs needs to be documented and provide the ACO sufficient information to make the penalty determination pursuant to [FAR 42.709](#). If the expressly unallowable costs result in a material reservation about the subject matter and we therefore question the costs in the report, the communication would be provided in the report. If the expressly unallowable costs do not result in a material reservation about the subject matter and we therefore do not question the costs in the report, the communication can be documented through either e-mail or memorandum to the ACO.

c. Cents should not be included in summary report paragraphs, exhibits and schedules. However, they can be used in certain explanatory notes and supporting schedules, such as those relating to direct labor rates or material unit prices.

10-203.12 Protection of Report Information ******

DCAA audit reports, not containing classified information, may contain controlled

unclassified information (CUI). MFRs and other memorandums prepared as a written record of the results of an engagement may also contain CUI. Audit teams must determine if reports and memorandums contain CUI and if so apply the appropriate CUI markings. Reports containing classified information will be prepared, classified, marked, and protected in accordance with [DoD Manual 5200.01](#), DoD Information Security Programs. To the extent possible, limit classified material included in the report, because audit reports must be classified at the highest security classification contained therein. Also see [10-205.2](#) if the report pertains to a classified subject.

10-203.13 Report Terminology **

a. DCAA primarily performs compliance attestation engagements and the vast majority of them are examination engagements. However, for all of the work that DCAA performs, the related fieldwork, and the resulting examination reports, DCAA uses the term "audit" to describe the work. This also applies to operations (performance) audits. However, auditors should not use the term "audit" when performing applications of agreed-upon procedures engagements. Additionally, any advisory service performed by the DCAA will not use the word audit and will not use an audit report.

b. The difference between an examination and an application of agreed-upon procedures is the level of assurance (see [Chapter 2](#)). The preferred terminology is contained in the "Report on" paragraphs in the CaseWare shell/pro forma reports. If the audit is an examination, the report narrative will state "we examined". Similarly, if the audit is an application of agreed-upon procedures, the report narrative will state "we applied agreed-upon procedures".

c. Most audits DCAA auditors perform are examinations that require a high level of assurance. However, any assignment may be performed as an application of agreed-upon procedures when the procedures to be performed have been specified by the requestor.

10-203.14 Spreadsheets **

a. An assessment should be made in each case if the inclusion of spreadsheet data is necessary to support the results of audit. Spreadsheet data should not be pasted or inserted into the report where the entire workbook is embedded as an object.

b. When tables are inserted in the audit report and they cover more than one page, each subsequent page should also include the column headings of the table.

c. In many instances, audit report recipients find the auditor's spreadsheets useful in performing negotiation scenarios, preparing business clearances, etc. Where reports contain tables generated from spreadsheets that may be useful to the recipient, an offer to provide the spreadsheets should be included in the notes. Where spreadsheet usage was significant, the auditor may also contact the requestor in advance to determine if the requestor would like the spreadsheets to be provided outside the audit report.

d. Spreadsheets or graphs should be positioned with their headings either at the top or at the left side of the report.

10-203.15 Use of Personally Identifiable Information (PII) **

The use of PII in reports should be avoided to the maximum extent practical to comply with the DCAA Privacy Program (DCAAI 5410.10). When employees have to be identified individually to report a finding (e.g., individual employees on a T&M contract do not meet the qualification requirements,) the use of contractor-provided employee identification numbers instead of names is preferred. When employee names are used, they should not be combined with other PII (e.g., Social Security Numbers, birth dates, etc.).

10-204 Report Format (Reports-General) **

Major examination report components are listed below in the sequence in which they generally appear. They are discussed in detail in the referenced paragraphs (see [14-1003.2](#) for the components of a report on an application of agreed-upon procedures). Those components highlighted with an asterisk should appear in every DCAA audit report regardless of type to satisfy minimum professional standards. Other elements may or may not be included in a particular report depending on the type of audit performed or other circumstances. For example, "Report on Other Matters" is not identified with an asterisk but becomes a mandatory report requirement if existing conditions require its use. Refer to the chapter pertaining to that audit area and pro forma language in CaseWare for additional guidance on audit report preparation for specific types of audit assignments.

- Report Cover Sheet and Title Page ([10-205](#))*
- Table of Contents ([10-206](#))*
- Executive Summary ([10-207](#))*
 - About [Contractor's Name]*
 - About this Audit*
 - What We Found*
- Report on [Brief Description of Audit] ([10-208.1](#))*
 - Management's Responsibility ([10-208.2](#))*

- Auditor's Responsibility ([10-208.3](#))*
- Basis for [Type of Modified Opinion] Opinion ([10-208.4](#))
- [Type of Opinion] Opinion ([10-208.5](#))*
- Report on Other Matters ([10-208.6](#))
- DCAA Personnel and Report Authorization ([10-209](#))*
- Audit Report Distribution and Restrictions ([10-210](#))*
- Exhibits ([10-211](#))
- Appendixes ([10-212](#))

* Required in every report regardless of type.

10-205 Report Cover Sheet and Title Page **

10-205.1 General **

a. Audit reports that do not contain classified information should include a CUI cover sheet (see [10-203.12](#)).

b. An Agency title page is required for every report. The DCAA graphic headers and footers should be used on the title page (see Figure [10-2-1](#)). The graphics and fonts should remain the same as the CaseWare shell/pro forma.

c. The report number, FAO name, FAO street address, and date should be included on the title page as presented in Figure [10-2-1](#). The date on the original report must be the date the report is signed and forwarded to the requestor or other addressee, except for revised reports as described in [10-213.6](#).

d. A descriptive title should be included on the title page. The titles should include the contractor's name, the subject of the audit, and subject's date.

e. Reports that do not contain classified information should include a CUI designation box on the title page as presented in Figure [10-2-1](#) (see [10-203.12](#)).

f. A Special Warning is positioned on the bottom of the title page. This warning briefly summarizes restriction on the release of the report, confidentiality of contractor information, and references the Restrictions section of the report ([10-210](#)). In addition, reports that do not contain classified information should be marked "CUI" (see [10-203.12](#)).

10-205.2 Title Pages for Reports on Classified Subjects **

If the report contains a security classification (see [10-203.12](#)), the classification marking must replace “CUI” on the report title page. This should be done by deleting “CUI” and inserting the appropriate security classification on both the top and bottom of the audit title page and subsequent pages. The CUI cover sheet must be replaced by an appropriate classified cover sheet. If a stamp for the appropriate classification is not available, classification markings should be made in letters conspicuously larger than the size of the print of the report.

10-206 Table of Contents (Reports-General) **

a. The table of contents will be located on a separate page following the Title Page. The table of contents section should be simple and uncluttered (See Figure [10-2-2](#)). Exhibits and schedules should not be listed individually. Instead, the reader will be able to find references to exhibits and schedules by reading sections of the report.

b. Appendixes. If there is only one appendix to the report, show the title and page number in the table. If there are multiple appendixes, use the term “Appendixes” and show the page number for the first appendix in lieu of listing each appendix.

10.207 Executive Summary **

a. The executive summary provides the reader with a brief (generally no longer than a page) summary of the report. Information in the executive summary should be relevant to the report user. When applicable, it should include references to the report section where more detailed results can be found. The executive summary should contain the following sections (see Figure [10-2-2](#)):

- About [Contractor’s Name],
- About This Audit, and
- What We Found.

b. About [Contractor’s Name]. This section is designed to give the reader general relevant information which impacts the scope and the results of the audit. It should include background information such as:

- Annual sales,
- Percentage of Government sales,
- Number of employees,
- Facilities,
- Intercompany relationships,
- Major services and products provided by the company, and
- The contractor’s physical address and CAGE Code.

Note: Be sure to reference where the information in this section comes from (e.g., from the contractor’s website as of a specific date.

c. About This Audit. This section should describe why the audit was performed. It should identify the requestor(s); the contractor's assertion or the subject matter, including the date; and reference numbers (solicitation number or ACO field pricing case number). When disclaiming an opinion the section should be modified to avoid any confusion on whether an audit was performed (e.g., modify "why we performed..." to "Why we were engaged to perform...").

d. What We Found. This section should provide a high-level summary of our findings. Auditors should adjust the section based on the customer's request and audit findings. It should not include scope limitations. When disclaiming an opinion this section should be modified to state that the scope of the audit was not sufficient to warrant the expression of an opinion. The auditor **should not** identify the procedures that were performed, findings, and/or material noncompliances as to do so may overshadow the disclaimer. Refer to the basis for opinion section and the appendix if noncompliances were identified during the limited procedures performed.

10-208 Report Narrative - Reporting on the Audit Objective, Responsibilities and Opinion **

All reports must have a narrative body that contains: the report objectives; contractor's and auditor's responsibilities; the audit results, including findings, conclusions and recommendation, as appropriate. This section provides guidance and general content on the following examination report sections:

- Report on [Brief Description of Audit] ([10-208.1](#))*
 - Management's Responsibility ([10-208.2](#))*
 - Auditor's Responsibility ([10-208.3](#))*
 - Basis for [Type of Modified Opinion] Opinion ([10-208.4](#))
 - [Type of Opinion] Opinion ([10-208.5](#))*
- Report on Other Matters ([10-208.6](#))

The report in each CaseWare audit working paper package contains language specific to the type of audit performed.

10-208.1 Report on [Brief Description of Audit] **

a. The objective of DCAA audits is to determine whether the contractor complied, in all material respects, with the applicable criteria. The "Report on" section will identify the subject matter of the audit (e.g., proposal), the criteria the subject matter was measured against (e.g., solicitation terms related to pricing), and the period covered (e.g., FY 20XX).

b. For certain engagements, the contractor is required to update the subject matter of the audit throughout the audit fieldwork and up until an unknown date in the future, such as with a price proposal. In these instances, the requirement for identifying the period covered is met by identifying the approximate date the team

completed the audit fieldwork. The fieldwork completion date is the date the auditor submits the final audit package for management review. However, if the audit team discovers the existence of new evidence or information that could affect the decision process, the team should discuss its significance and determine if additional fieldwork procedures are necessary in order to provide optimal value to the report users. If additional fieldwork is necessary, the team should extend the fieldwork completion date to the date on which the auditor submits the revised audit package for management review.

10-208.2 Management's Responsibility **

This subparagraph states that it is the contractor's responsibility to comply with the specified criteria (e.g., contract terms). It also states that the contractor is responsible for its internal control that prevents, detects, and corrects noncompliances due to error or fraud. The report in each CaseWare audit working paper package contains language specific to the type of audit performed.

10-208.3 Auditor's Responsibility **

This section summarizes our responsibility in conducting the audit, and routinely includes the following five paragraphs:

(1) Responsibility to Express an Opinion and Compliance with GAGAS - The first paragraph of this subsection will state that it is our responsibility to express an opinion based on our audit. It also will state that we conducted our audit in accordance with GAGAS.

(2) What a GAGAS Audit Represents - The second paragraph describes the requirements for a GAGAS compliant audit. This informs the report user about the assurance service we are providing and briefly describes the procedures we must perform to provide such assurance.

(3) Sufficient and Appropriate Evidence - In the next paragraph we explicitly state that we gathered sufficient and appropriate evidence to provide a reasonable basis for our audit opinion. This paragraph also states that our examination does not provide a legal determination on the contractor's compliance with the specified criteria.

(4) GAGAS Independence and Ethics Requirements - The fourth paragraph states we are required to be independent and to meet our other ethical responsibilities in accordance with GAGAS.

(5) Inherent limitations - The last paragraph is only necessary when the subject matter under audit has significant forecasted costs (e.g., forward pricing).

10-208.4 Basis for [Type of Modified Opinion] Opinion **

a. Include this subsection if the examination disclosed a material reservation(s) about the subject matter (noncompliance) and/or material reservation(s) about the engagement (scope limitations). State the type of modified opinion in the paragraph

title (e.g., Basis for Qualified Opinion). Omit this section if the opinion is unmodified (unqualified opinion).

b. This section should include only the noncompliance and/or scope limitations that materially affect the subject matter and support the modified opinion. The audit team should describe the basis for the modified opinion using the two subheadings: Material Noncompliances (reservations about the subject matter) and Scope Limitations (reservations about the engagement).

(1) Material Noncompliances - Briefly describe the material noncompliance(s) and refer the reader to the detailed discussion in the exhibit notes.

(2) Scope Limitations – Fully describe the scope limitation(s) and its effect (or potential effect) on the subject matter. Do not reference exhibit notes unless the scope limitation is the result of noncompliance and the notes describe the effect of the noncompliance. When a scope limitation is likely to be highly significant to the requestor, or when the scope limitation deals with a complex issue that may be difficult to understand solely from the report, the audit team might consider discussing the scope limitation with the requestor prior to issuing the report.

10-208.5 [Type of Opinion] Opinion **

a. This subsection should provide the auditor's opinion about whether the subject matter complies with the criteria. Similar to the Basis for Opinion section, state the type of opinion in the heading (e.g., Unqualified Opinion). The different types of opinions are:

Unqualified Opinion - The audit team issues an unqualified opinion when they have obtained sufficient appropriate evidence to be **reasonably** sure (not absolute assurance) the subject matter, as a whole, is free of material noncompliances and the audit team has applied all the procedures considered necessary.

Modified Opinion - The audit team issues a modified opinion when there is a reservation. A reservation occurs when the audit team discloses material noncompliances or there are unresolved risks of material noncompliances. There are two types of reservations; Reservations about the Subject Matter and Reservations about the Engagement.

- Reservations about the subject matter occur when the audit team discloses a material noncompliance (e.g., contractor's claimed depreciation expenses do not comply with CAS 409):
 - This type of reservation will result in either a qualified or an adverse opinion depending on materiality and pervasiveness.
 - The audit team should issue a **qualified** opinion when they have disclosed noncompliances that are material but not pervasive.

- The audit team should issue an **adverse** opinion when they have disclosed noncompliances that are both material and pervasive.
- Reservations about the engagement occur when the audit team is unable to obtain sufficient appropriate evidence (i.e., unable to apply all the procedures considered necessary in the circumstances). Reservations about the engagement can originate from the contracting officer (e.g., time constraints), the contractor (e.g., access to records), or internally within DCAA (e.g., lack of assist audits).
 - This type of reservation will result in either a qualified or disclaimer of opinion depending on materiality and pervasiveness.
 - The audit team should issue a **qualified** opinion when they are unable to obtain sufficient appropriate audit evidence (i.e., not all planned audit procedures could be completed) and the potential effects are material but not pervasive.
 - The audit team should **disclaim** an opinion when they are unable to obtain sufficient appropriate audit evidence (i.e., not all planned audit procedures could be completed) and the potential effects are material and pervasive. Note: Auditors should not disclaim an opinion if they have sufficient evidential matter that warrants expressing an adverse opinion. For additional details on disclaiming an opinion, refer to [10-208.7](#).

The following table illustrates the decision process, using professional judgment about the pervasive nature of the reservation when selecting the appropriate modified opinion:

Nature of Reservation	Material but not Pervasive	Material and Pervasive
Subject Matter	Qualified opinion	Adverse opinion
Engagement	Qualified opinion	Disclaimer of opinion

b. Applying the Concept of Pervasiveness

(1) The audit team **must** make a final assessment about whether or not reservations about the subject matter are pervasive, in combination, to determine the audit opinion.

Reservation about the Subject Matter – In this context, pervasive means the reservations affect a substantial portion of the subject matter under audit and are generally not confined to specific cost elements.

(2) The audit team **must** make a final assessment about whether or not the **true effects** of the reservations about the engagement are pervasive, in combination, to determine the audit opinion.

Reservation about the Engagement – In this context, pervasive means that the possible impact of the audit procedures not performed can affect a substantial portion of the subject matter under audit and is generally not confined to specific cost elements.

c. Working paper A-00 pro forma documents generated by CaseWare have additional instructions and report language specific to the type of audit being performed.

d. Additional Remarks

(1) Exit Conference - Immediately following the opinion paragraph, discuss the meeting in which the team communicated the results of audit to the contractor, including whether the team furnished the contractor a draft report or other written communication. Briefly discuss the contractor's response and reference the Appendix containing the contractor's written response, if applicable. Pursuant to FAR 15.404-2(c)(1)(i), do not disclose to the contractor the audit conclusions and recommendations on projected costs or rates that are subject to contracting officer negotiation, except as specifically requested by the negotiating contracting officer ([4-304.2b](#)). Include the following paragraph:

We provided a draft copy of the report and discussed the results of our examination with [insert Name and Title of contractor's representative], in an exit conference held on [insert date]. [Summarize the contractor's reaction here]

When a contractor provides comments, we should summarize the oral comments and provide the summary to the responsible contractor official. The written reaction or summary of oral comments should be referenced within the Results of Audit section and included as an appendix to the audit report. Include the following statement:

The complete text of the contractor's reaction or summary of oral comments appears as Appendix [X].

(2) Other Additional Remarks - If applicable, mention any expected subsequent or supplemental reports because of scope limitations.

If the audit team received a Government technical evaluation in conjunction with the audit, the team will normally incorporate the technical report recommendations into the audit conclusions. In such cases the audit report should include an additional statement, such as the following:

We obtained permission from the external technical specialist to

reference the specialist work in explaining the nature of the audit conclusions. Referencing the specialist report does not reduce DCAA's responsibility for the audit opinion. See Appendix [X] for a copy of the technical report.

10-208.6 Report on Other Matters **

a. Include this section when (1) reporting matters not directly related to the examination and the resulting opinion that warrant the attention of those charged with governance and/or (2) reporting findings from the limited procedures performed when disclaiming an opinion. The following is an example Report on Other Matters paragraph when disclaiming an opinion and the auditor is reporting findings, based on the limited procedures performed, in an appendix:

Our examination disclosed certain findings that do not affect the opinion above but we are required to report under GAGAS (see attached Report on Other Matters appendix).

b. Provide the contractor's view when the other matter pertains to a noncompliance.

10-208.7 Disclaiming an Opinion **

a. The audit team should disclaim an opinion when (1) the team has not performed an audit adequate in scope to obtain sufficient appropriate evidence (i.e., reservation about the engagement) to form even a qualified opinion and (2) the team concludes that the possible effects of the noncompliances that could have been identified are both **material** and **pervasive** to the subject matter under audit.

Before making the determination to disclaim an opinion, the audit team should make every effort to complete all planned procedures. If the audit team is unable to perform the planned procedures, they should attempt to perform alternate procedures (i.e., obtain sufficient appropriate audit evidence through other audit procedures). The audit team should use judgment in applying resources and determining whether performing alternate procedures would serve a useful purpose.

The audit team should not disclaim an opinion if they have sufficient evidential matter of the contractor's material noncompliance that warrants expressing an adverse opinion.

When disclaiming an opinion, edit the report as follows:

(1) The first sentence in the "Report on..." section should state "We were engaged to examine", rather than "We examined" since the auditor was not able to perform an examination in accordance with GAGAS.

(2) Replace the entire Auditor's Responsibility section with the following paragraph:

(3) *Our responsibility is to express an opinion on the subject matter based on conducting the audit in accordance with Generally Accepted Government Auditing Standards. We are required to be independent and to meet our other ethical responsibilities in accordance with GAGAS. Because of the limitation(s) on the scope of our examination described in the Basis for Disclaimer of Opinion paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether the subject matter is in accordance with the criteria, in all material respects.*

(4) Describe material and pervasive Scope Limitations in the “Basis for Disclaimer of Opinion” section. This paragraph should provide a clear and comprehensive description of the matter(s) giving rise to the disclaimer, reasons for the disclaimer and its true effect, or potential true effect on the subject matter.

(5) When disclaiming an opinion, the audit team should use the heading “Disclaimer of Opinion” for the opinion paragraph. Use the following template for the disclaimer of opinion language.

(6) Because of the limitation on the scope of our examination discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on whether [identify the subject matter (e.g., proposed direct and indirect amounts for contract reimbursement on unsettled flexibly-priced contracts contained in XYZ Company’s CFY 20XX final indirect rate proposal)] complies, in all material respects, with [identify the criteria (e.g., contract terms pertaining to accumulating and billing incurred amounts)].

b. When disclaiming an opinion, the audit report should describe the nature of any material noncompliance and its actual and potential effect on the subject matter in a “Report on Other Matters” appendix.

(1) Include the following language at the beginning of the appendix:

Reporting noncompliances do not represent an overall opinion on the subject matter under audit but are fully developed findings based on substantiated evidence from the limited procedures applied during the performance of the audit.

As a general rule, the audit team should not describe specific audit procedures in the Report on Other Matters appendix. Furthermore, the team should:

- Not use the structured note format in the appendix because audit evaluation section describes the audit procedures and could be misleading.
- Avoid summary exhibits showing a difference or audit recommended column.

- Avoid using the term “questioned” costs.
- Avoid presenting calculated rates based on the report findings.

c. Communicate noncompliances to the contractor and include the contractor’s reaction and auditor’s response in the appendix.

d. There may be cases where the audit team believes identifying audit procedures will assist the contracting officer (e.g., assist in negotiations). In these cases, the audit team should communicate that additional information in a separate section in the Report on Other Matters appendix. This additional information generally should not include a list of audit procedures that were performed since audit procedures in and of themselves would not provide the type of information necessary for contracting officers to make a determination (e.g., assist in the negotiation of rates). When deciding to include additional information, the audit team should coordinate first with the contracting officer and use judgment in determining what information will benefit their decision-making process.

e. The audit team should issue separate noncompliance reports for CAS noncompliances and business systems deficiencies, when appropriate.

10-209 DCAA Personnel and Report Authorization (Reports-General) **

a. DCAA Personnel. For all reports, identify the primary point(s) of contact and the general contact(s) for questions regarding the audit. Also, provide telephone numbers where they can be reached. Include the telephone, fax number and email address for the onsite financial liaison advisor, when applicable. Provide the FAO fax number and e-mail address (see [Fig. 10-2-4](#)). The name of an auditor who has documented an unreconciled difference of opinion on audit findings may be excluded from the DCAA Personnel section of the applicable audit report if the auditor so chooses (see [4-409\(d\)](#)).

b. Signature.

(1) The report will be signed by personnel authorized to do so in accordance with the provisions of DCAAI 5600.1, Delegation of Signature Authority for Audit Reports and Other Related Documents, in most cases, the FAO Manager or their designee. As shown in Figure [10-2-4](#), “AUDIT REPORT AUTHORIZED BY:” is typed at the left margin. The first line of the signature block is generally typed on the fifth line below this line.

(2) All final audit reports will be converted to PDF format and must be secured and digitally signed by the FAO Manager using the Adobe Acrobat software.

[Digital Signature]
Robert T. Brown
Branch Manager
DCAA Arizona Branch Office

(3) If someone other than the FAO manager signs the report, use the following electronic signature format.

[Digital Signature]
/for/ John W. Brown
Branch Manager
DCAA Arizona Branch Office

10-210 Audit Report Distribution and Restrictions (Reports-General) **

10-210.1 Report Distribution **

a. A separate page should be provided, after the signature page, to advise the report recipient of report distribution. If e-mail addresses are available, include them for each recipient who is willing to receive the report electronically. The distribution list should properly identify each organization, with the exception of DCAA Field Detachment, which receives a blind copy of audit reports. The contractor is not to be placed on the report distribution list, refer to [10-210.3\(e\)](#) below. The report distribution is illustrated in [Figure 10-2-5](#).

b. Long distribution lists may be placed in a report Appendix; however, the location of such long distributions will be referenced on a separate sheet following the signature page.

c. Include the cognizant Financial Liaison Advisor (FLA) on distribution of all proposal, Truth in Negotiations, termination and claims audits. When the audit team believes including the FLA on distribution would be beneficial to other audits, they should follow the guidance at [15-307](#).

d. In audits on contractor business systems, information copies of reports with significant findings should be sent to each procurement office doing substantial business with the contractor, unless an office's contracts would not be affected by the reported conditions. A report with significant findings is one that discloses one or more major deficiencies or recommends significant cost avoidance or contractor corrective action(s). A follow-up report should be distributed as a significant report if the prior report on the same subject contained significant findings. These distributions should be coordinated with procurement offices in advance so they can determine whether or not they want to receive such reports.

e. Refer to [CAM Chapter 13](#) for audit report distribution requirements for audits of states and local Governments, universities, and non-profit organizations.

f. Provide copies of reports on lower-tier subcontractors to FAOs cognizant of the upper-tier contractor in accordance with [10-210.4](#), Release of Subcontract Audit Report to the Higher-Tier Contractor, below. Provide the name of the upper-tier contractor and relevant contract numbers for ease in routing the report (See [10-210.4](#)).

g. A copy of all audit reports for non-DoD customers resulting from forward

pricing, terminations, equitable adjustment claims, and systems and incurred cost audits should be e-mailed to DCAA-FLA-NONDOD. Also see [15-100](#) for distribution requirements pertaining to non-DoD agencies.

10-210.2 Report Restrictions – General **

[Figure 10-2-5](#) contains an example of the report restrictions required in all reports. Restriction 3 should be tailored for release applications as discussed in [10-210.3](#) and [10-210.4](#). Restrictions for release of the pricing proposal report to a United States contracting officer working on behalf of an FMS customer are set forth in [10-210.5.3](#). In addition, other types of reports such as, a Truth in Negotiations, termination, etc., requested by a United States contracting officer on behalf of an FMS customer, should follow the guidance related to proposal reports set forth in [Chapter 9](#). The language in the figure should be used as shown except that the language in restriction 4 must be modified for the application of agreed-upon procedures reports. If the report contains classified information, refer to [10-205.2](#) for guidance on classification markings. In addition, for reporting on audits performed under [2 CFR 200, subpart F](#), see [13-817.2](#).

10-210.3 Release of Audit Reports to the Contractor **

a. As provided for in the Government Auditing Standards, DCAA routinely provides copies of draft reports for all audits, except those dealing with negotiation of forecasted costs or those dealing with costs potentially under litigation to the contractor being audited for review and comment. (See also [4-303](#) and [4-304](#) regarding information to be discussed at interim and exit conferences.)

b. Except for the reports described in paragraphs c and d, the auditor should provide the contractor a copy of the draft report, or at a minimum, the audit opinion and any exhibits and notes, or statement of conditions and recommendations, to the contractor at the exit conference in draft form for written comment. As discussed in [4-303](#), the details of significant audit findings are provided to the contractor for comment at the time they are discovered during the audit. This allows for quick turnaround once the complete draft report is provided, since all findings will have already been fully discussed with the contractor. The contractor should be provided a reasonable amount of time to analyze the audit results and to submit its reaction for incorporation into the final report. However, this time should be minimal since the audit issues were discussed on a real-time basis during the evaluation. If the contractor's reaction is not provided in a timely manner, the final report should be issued stating that the report was provided for comments to the contractor but the comments were not received in time to incorporate them into the final report. If written comments are received after the report was issued, prepare a supplemental report if it will serve a useful purpose.

c. In order to avoid disclosing the Government's negotiating position, draft reports that include forecasted costs to be used in negotiations are not provided to the contractor unless specifically authorized by the contracting officer (FAR 15.404-2(c)(1)(i)). The contracting officer may restrict the discussion of source selection information with an offeror (FAR 15.3). However, the auditor should fully discuss with

the contractor any factual differences, unsupported items, certified cost or pricing data inadequacies, and CAS/FAR noncompliances and obtain the contractor's reaction for inclusion in the final audit report. Draft and final audit reports on the areas listed below are not provided to the contractor unless the contracting officer directs such release in writing.

- Individual Price Proposals,
- Should Cost Reviews,
- Forward Pricing Rate Proposals,
- Evaluations of Part of a Proposal, including audits of specified cost elements,
- Agreed-upon procedures,
- FPR/FPI Price Redetermination Proposals, containing forecasted costs, and
- Equitable Adjustment and Termination Submissions, containing forecasted costs (refer to [12-507](#) for general guidance concerning equitable adjustment submissions), and
- Other evaluations where the PCO/requester restricts release to the contractor.

d. Draft and final reports that are of a privileged and sensitive nature (such as those reporting on unsatisfactory conditions ([4-803.2](#)) or which make reference to suspected irregular conduct or referral for investigation ([4-700](#))) will not be provided to the contractor. These types of reports are not usually discussed with contractor representatives, and any inquiries concerning disclosure of the report information will be resolved in accordance with [DoDM 5400.07](#) and the DCAA Freedom of Information Act Program.

e. The statement regarding release of the audit report solely at the discretion of the cognizant contracting agency pertains to the complete report including all appendixes. Restriction 3 paragraph provides for distribution of reports at the discretion of the Contracting Officer. Report Restriction 3 is included in all reports (refer to 210-3.g).

f. Frequently, a Government technical evaluation report may be referenced in or included as an appendix to the DCAA audit report. If, for any reason, the Government activity supplying a technical evaluation has any objection to release of its report to contractor representatives, this must be highlighted in the "Restrictions" section of the title page. For example:

The Defense Contract Audit Agency has no objection to release of this report. However, do not release the Government technical evaluation report included as Appendix XX of our report to [Contractor or Subcontractor Acronym] without approval of [name of Government agency supplying technical report].

g. All audit reports will include the following contingent release statement shown on Figure [10-2-5](#).

The Defense Contract Audit Agency has no objection to release of this report, at the discretion of the contracting agency, to authorized representatives of [insert name of contractor or subcontractor to which the report pertains].

h. If the contractor requests a copy of the final report after the report has been issued, coordinate with the contracting officer to determine if the contracting officer has any objection to DCAA providing a copy of the report directly to the contractor.

10-210.4 Release of Subcontract Audit Report to the Higher-Tier Contractor - Proposals or Other Cost Submissions [](#)**

a. When the report is on a subcontractor's proposal or other cost submission to a higher-tier contractor, the audit report "RESTRICTIONS" must contain a statement regarding the subcontractor's agreement or objection to release of the report or information to the higher-tier contractor. The release statement applies to all subcontract audit reports or summary information. The audit procedures on this matter are discussed in [9-106](#) for price proposals and [6-802.6](#) for incurred costs. The auditor should determine at the start of the audit whether the subcontractor would have any restrictions on release of the report to the higher-tier contractor. If so, the auditor should also discuss with the requestor if the audit should proceed, and if so, how the audit results could best be presented to provide for release to the higher-tier contractor and maximize their usefulness to the recipient. (See 10-210.4d. below)

b. The comment regarding subcontractor release restrictions will be included in the Audit Report Distribution and Restrictions section ([10-210](#)). If a report is issued, the comment will appear either as a stand-alone comment or as a follow-on comment to the sentence provided in 10-210.4c. and 10-210.4d., if required. If a cumulative allowable cost worksheet (CACWS) is issued, the comment may be included as a note in the CACWS.

c. If the subcontractor does not object to release of the report, use the following statements:

The Defense Contract Audit Agency has no objection to the release of this report, at the discretion of the contracting agency, to authorized representatives of [Subcontractor/ Contractor Acronym to which the report pertains]. Nor does [Subcontractor Acronym] object to the release of this report to authorized representatives of the higher-tier contractor(s) [name of higher-tier contractor(s)]. See Appendix [X] for a copy of the contractor's release statement.

d. If the subcontractor objects to the release of report information, use a statement similar to the following:

The Defense Contract Audit Agency has no objection to the release of this report, at the discretion of the contracting agency, to authorized representatives of [Subcontractor/ Contractor Acronym to which the report pertains]. However, please note that [Subcontractor Acronym] objects to the release of this report in its entirety to the higher-tier contractor(s) [higher-tier contractor name(s)] because [briefly summarize the reason(s) for the contractor's objection]. See Appendix [X] for a copy of [Subcontractor Acronym]'s statement of objection to release.

e. If the subcontractor restricts release of only a portion of the report information (for example, historical labor hours), try to contain the restricted data in a schedule or appendix that can be conveniently removed from the report. In such a situation, the report "RESTRICTIONS" would include a statement describing what information cannot be released and advise that the report could be released if the restricted data were first removed. For example: Subcontractor objects to release of specific information contained in the report:

The Defense Contract Audit Agency has no objection to release of this report, at the discretion of the contracting agency, to authorized representatives of [Subcontractor/ Contractor Acronym to which the report pertains]. However, please note that [Subcontractor Acronym] objects to release of this report to the higher-tier contractor(s), [higher-tier contractor name(s)], unless Schedule/Appendix [X] is first removed, because [briefly summarize the reason(s) for the contractor's objection]. See Appendix [X] for a copy of [Subcontractor Acronym's] statement of objection to release.

10-210.5 Audit Report Restrictions and Distributing Reports-Proposal Reports **

10-210.5.1 Restrictions – Release of Audit Report to the Contractor Reports on Prime Contract Proposals **

Reports on price proposals are not provided to the contractor unless the contracting officer directs such release in writing. See [10-210.3](#) for information and restrictions on releasing the report to the contractor.

10-210.5.2 Restrictions - Release of Subcontract Audit Report to the Higher-Tier Contractor **

When the report is on a subcontractor's proposal to a higher-tier contractor, the report "RESTRICTIONS" must contain a statement regarding the subcontractor's agreement or objection to release of the report or information to the higher-tier

contractor. See [10-210.4](#) for information and restrictions on releasing the subcontract audit report to the higher-tier contractor.

10-210.5.3 Restrictions - Release of Audit Report to FMS Customers **

a. When the contracting officer or Department of Defense Central Control Point (DoDCCP) identifies that the price proposal is for an FMS/DCC customer, the auditor should determine at the start of the audit whether the contractor objects to the release of the report to the FMS/DCC customer. The audit procedures on this matter are discussed in [9-110](#). The audit report “RESTRICTIONS” must contain a statement regarding the contractor’s agreement or objection to release of the report or information to the FMS/DCC customer. The contractor’s letter should be included as an appendix to the audit report.

b. If the contractor objects to release of the report to the FMS or DCC customer, use a statement similar to the following:

The Defense Contract Audit Agency has no objection to release of this report, at the discretion of the [contracting agency] or [DoDCCP], to authorized representatives of [name of contractor] or [FMS customer] or [DCC customer]. However, please note that [name of contractor] objects to the release of the propriety data contained in this report to [FMS customer] or [DCC customer]. See Appendix XX for a copy of the contractor’s statement objecting to release of the report.

c. If the contractor does not object, the following comment should be used in the release restrictions:

The Defense Contract Audit Agency has no objection to release of this report, at the discretion of the [contracting agency] or [DoDCCP], to authorized representatives of [name of contractor]. Nor does this Agency or [name of contractor] object to release of this report to authorized representatives of [FMS customer] or [DCC customer]. See Appendix XX for a copy of the contractor’s release statement.

d. If the contractor does not respond to the auditor inquiry, use a statement similar to the following:

The Defense Contract Audit Agency has no objection to release of this report, at the discretion of the contracting agency, to authorized representatives of [name of contractor] or [FMS customer] or [DCC customer]. We asked [name of contractor representative and title] on [date] if [name of contractor] objected to the release of the propriety data contained in this report to [FMS customer] or [DCC customer]. As of the date of this report, we have not received a response to our inquiry.

10-210.5.4 Distributing - Reports on Prime Contract Proposals **

a. Reports on price proposal audits will usually be distributed to the individual who has responsibility for negotiating the proposal. This is either the PCO or the plant representative/ACO (if the PCO has delegated negotiation authority). If there is doubt about the correct addressee, ask the plant representative/ACO if she or he has been delegated procurement authority to execute the contract pricing action involved.

b. Provide a copy of the report to the appropriate FLA (see the FLA Locator on the DCAA Intranet site). Also provide a copy of each prime contract price proposal audit report to the NASA OIG Center Director (see [15-1S1](#)) if NASA so requests.

10-210.5.5 Distributing - Reports on Intracompany and Subcontract Proposals **

a. If this is a DoD procurement ([9-100](#) and FAR 15.404-2 /DFARS 215.404-2), an audit report of an intracompany or subcontractor proposal will be distributed to the plant representative/ACO responsible for the segment or subcontractor submitting the proposal. Copies of the audit report will be distributed to the plant representative/ACO and auditor cognizant of the upper-tier contractor. Note that the assist audit report should still be distributed in the above manner even if the assist audit was requested by DCAA (see [9-104.2](#) and [9-104.4](#)).

b. If the procurement is not for DoD or is a foreign direct sale, and the PCO requests audit assistance directly from the prime contractor auditor, distribute the reports on audits of subcontractor and intercompany proposals to the requesting PCO. Provide a copy to the plant representative/ACO responsible for the audited segment or subcontractor, unless he or she expressly prefers not to receive copies of such reports.

10-211 Exhibits **

10-211.1 General **

a. Exhibits and schedules should start on a separate page after the report restrictions. This section should contain exhibits and supporting schedules necessary for a clear and complete presentation of the evaluation results and recommendations. The words “exhibit” and “schedule” should be written entirely in upper case letters when they are used as titles.

b. For audits of prospective or historical cost, this section should start with an exhibit that has a single tabulation that quantifies the audit findings. Present the contractor's submission and the audit results by cost element with explanatory notes that fully describe the findings. Tailor the format to meet the needs of the requester (e.g., CLIN or Task Order with cost elements broken out for each requested item). If additional supporting tabulations are needed to provide further quantification, designate principal tabulations “exhibits” and identify them by capital letters in consecutive order; e.g., EXHIBIT B, EXHIBIT C, etc. (except a single exhibit should be designated simply as “EXHIBIT”). Additional tabulations needed to explain any of the items in the principal exhibits will be designated “schedules”. The content of the exhibits and

schedules will vary depending on the type of audit report being prepared. Where there are findings in audits dealing with historical cost, the auditor makes a “recommendation”. For findings in audits dealing with prospective costs (e.g., forward pricing proposals), the auditor does not “recommend” but may provide a “Difference” column which is intended for the use of the contracting officer in preparing a negotiation position. Refer to the language in CaseWare for examples of specific requirements for the type of audit report you are preparing.

10-211.2 Structured Notes **

The purpose of a structured note is to provide a clear, concise, objective, persuasive, well-supported, evidence-based summary of our audit findings that allows users to understand the findings and the significance of those findings so they can make an informed decision. There are two types of structured notes: (1) A Statement of Conditions and Recommendations (SOCAR) is used to convey findings for CAS audits, performance audits, and when reporting on compliance with DFARS criteria and (2) an explanatory note is used to convey findings for prospective or historical costs and other issues that do not specifically require the use of a SOCAR.

a. Structured notes should generally be included in the audit report for any area where we are reporting significant findings. For audit areas that lack significant findings, auditors should coordinate with the requester/contracting officer to determine whether detailed structured notes in the audit report would serve a useful purpose. If the contracting officer does not feel this information would be useful, the auditor should not include structured notes in the audit report. Auditors should include documentation of this coordination with the requestor/contracting officer in the working papers.

b. When they are used, explanatory notes should contain detailed information such that the contracting officer is able to clearly understand the basis for each element of cost, how the cost was evaluated, and the conclusions made on the basis of that evaluation. Explanatory notes should be prepared for each significant cost element. When the contractor agrees with the audit conclusions, the explanatory note(s) may be abbreviated. When explanatory notes are redundant, a common note may be used, if the results can be presented more efficiently. When developing the explanatory notes auditors will consider the needs of the report recipient. For example, the contractor’s action (or inaction) leading to the noncompliance should be reported to the level necessary for the report recipient for understanding and negotiating the finding. Separately, the auditor should determine if additional follow-up (e.g., audit lead) or reporting requirements (e.g., a business system deficiency report) exist. For explanatory notes that deal with proposed costs (i.e., forward pricing, terminations, claims, incurred cost, etc.) the general minimum criteria for the explanatory notes will include the following:

(1) Summary of Conclusions. Provide a brief summary of the audit exception (i.e., the condition). Provide the basis for any questioned or unsupported costs including a description of the costs, a specific reference to the regulatory support such as the cost principle, cost accounting standards, or contract terms (i.e., the criteria), and quantify the questioned or unsupported amounts (i.e., the effect).

(2) Basis of Contractor's Cost. Describe the basis of the contractor's submitted costs. Provide details on how the contractor estimated, charged or claimed these amounts. As appropriate, provide references to the specific parts of the contractor's proposal that provide more detail on the basis. (Note: This is not the place to take exception to how the contractor proposed the cost.)

(3) Audit Evaluation. Provide a description of the audit procedures used to evaluate the cost element. Describe the procedures even if they did not result in questioned, unsupported or unresolved costs. Include details on the calculation of the audit exception (i.e., the effect) and use of quantitative methods. The details describing the rationale for the calculation of the effect will include why the noncompliance exists to the extent necessary to achieve the audit objectives. The auditor should include enough information for the customer to make an informed decision on the audit finding. This section should not include "conclusion" language, but should be restricted to what we "did" to form our opinion.

- When quantitative methods are used as a basis for the audit conclusions, these methods should be described. The note must disclose whether the auditor used either a nonstatistical or a statistical sample as a basis for the audit conclusions. The description must also include details concerning the sample universe, the sampling method, and sampling unit, and will state whether the statistical sampling results were projected to the sampling universe. Audit reports with projections will also include the confidence level percentage, confidence interval boundary amounts and error rate, as applicable. If the results were not projected, the report should explain the reasons why the results could not be projected.
- Include references to any "Reservations" as a result of a material noncompliance and fully describe the effect these circumstances have on the submitted costs.

(4) Contractor's Reaction. Provide a statement that the contractor either agreed or disagreed with the auditor's conclusions and the basis for any disagreement. For price and rate proposal audits, discuss factual differences, and do not disclose to the contractor the audit conclusions and recommendations on projected costs or rates that are subject to contracting officer negotiation ([4-304.2b](#)) unless agreed to by the contracting officer.

(5) Auditor's Response. Provide any appropriate comments if the contractor disagrees with the auditor's conclusions.

c. Structured notes for audit reports that do not pertain to proposed costs (i.e., CAS, audits of system compliance with DFARS criteria, etc.) should follow the Statement of Condition(s) and Recommendation(s) (SOCAR) format. This format contains two main subheadings "Condition" and "Recommendation".

The first subheading, condition, should include a comprehensive condition statement for each significant deficiency or area susceptible to improvements in economy or efficiency. The condition statement should include necessary and relevant elements of an audit finding as described in GAGAS and outlined below to present a logical condition.

- **Condition.** This element of a finding identifies the nature of the deficiency, finding, or unsatisfactory condition by disclosing how things are. Factual examples should be included to demonstrate to the contracting officials and contractor that the reported conditions do exist.
- **Criterion.** This element of a finding establishes the legitimacy of the finding disclosing how things should be.
- **Cause.** This element of a finding gets to the root of the problem by answering the question, “Why did it happen?” When developing this element of the finding, auditors should consider internal control deficiencies in their evaluation.
- **Effect.** This element of a finding convinces the reader that the condition is significant by answering the questions, “What happened or could happen as a result of this condition? What is the harm or potential harm to the Government?”

The relevance and necessity of an element of a finding varies with the audit objectives. The development of a finding or set of findings is complete to the extent that the audit objectives are satisfied. Auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the audit objectives (GAGAS 7.19).

The second sub-heading, recommendation, should recommend actions to correct deficiencies and other findings identified during the audit. The recommended actions should address the following question: “What must be done to eliminate the cause of the condition?” If the relationship between the cause and the condition is clear and logical, the recommended action(s) will most likely be feasible and appropriately directed. The auditor's constructive, specific recommendation(s) should be stated immediately after each reported condition. It is important to remember that the recommendation should not tell the contractor exactly how to fix the problem as it could impair future auditor independence.

Use a separate section labeled “Contractor's Reaction” to summarize the contractor's reaction to the condition and recommendation(s). Include the complete written response as an “appendix.” If the contractor's comments warrant a rebuttal or rejoinder, include DCAA's argument in a section labeled “Auditor's Response”.

d. When using regulatory citations such as FAR or CAS as the basis to question costs, the report should use the title of the citation the first time it is used. For example, if costs are questioned based on the allowability provisions, the report should use FAR 31.201-2, Determining Allowability. If we are questioning costs based on a

subparagraph, it is not necessary to use the full title of the citation again. For CAS, the report should state 48 CFR 9904.402-40 rather than CAS 402-40. The structured note should also include specific language from the regulation which makes the costs unallowable. For example, we questioned costs in accordance with FAR 31.205-51, Costs of Alcoholic Beverages, which states “Costs of alcoholic beverages are unallowable”. Below is an example of the beginning of a structured note paragraph related to a citation:

Contractor ABC has not demonstrated that the IWO costs are transferred at cost as is required by FAR 31.205-26, Material Costs. FAR 31.205-26(e) states: “Allowance for all materials, supplies, and services that are sold or transferred between any divisions, subdivisions, subsidiaries, or affiliates of the contractor under a common control shall be on the basis of cost incurred...”

10-212 Appendixes (Reports-General) **

a. Appendixes may be used when additional background information is needed to help the reader obtain a full understanding of circumstances or events. Types of appendixes include:

- DCAA Assist Audits,
- Government Technical Reports,
- Subcontracts Requiring Contractor Cost/Price Analyses (see [Chapter 9](#)),
- Chronology of Significant Events for Truth in Negotiations audits,
- Rate Agreement Letters,
- Cumulative Allowable Cost Worksheet, and
- Contractor’s Response.

When material is sufficiently important to an understanding of the audit as to require incorporation into an appendix, the text must specifically identify the appendix and briefly state its relationship to the point being made. For example, audit reports on annual indirect costs may include an appendix on billing rates.

b. Appendixes may also be used when attaching stand-alone documents that contain information which is pertinent to the audit.

c. When another report is referenced, (for example, when an estimating systems examination has disclosed a deficiency discussed in a price proposal evaluation) and the auditor does not know that the user has access to a copy, the referenced report should be furnished as an appendix.

d. Appendixes should be placed immediately after the exhibit section of the report. For specific instructions on appendixes to audit reports for major audit areas, refer to the related chapter.

e. Identify appendixes by numbers in consecutive order (e.g., APPENDIX 1, APPENDIX 2, etc.).

10-213 Supplemental Reports **

10-213.1 Criteria for Use **

a. Auditing standards provide for issuance of supplemental audit reports when the auditor subsequently becomes aware of information which, had it been known at the time the report was issued, would have affected the report conclusions.

b. A new report (with a different report number) rather than a supplemental report should be issued when the purpose of the report differs from the purpose of the original report. This is the case when a special report is issued to summarize results of audit in previously issued reports or when a follow-up report is issued on a system audit to determine if the contractor took adequate corrective action on reported findings.

c. A supplemental report has the same purpose as the original report, but generally revises the original report's conclusions or significantly modifies some of the report details. Before preparing a supplemental audit report, contact the contracting officer to determine if the supplemental report would serve a useful purpose. If not, do not prepare the supplemental report and document your discussion in the working papers.

d. Supplemental DCAA audit reports should be issued when:

(1) Subsequent to the date of the audit report the auditor became aware that additional facts regarding the subject of audit existed at the report date, and such facts affect the report.

(2) Additional time is needed to perform a complete audit (especially on major proposals, sensitive areas, or where there is potential for significant audit findings), however, circumstances do not permit a due date extension. In this case, a qualified report should be issued advising that a supplemental report will be forthcoming if negotiations have not been concluded and the report will serve a useful purpose.

(3) Relevant and material developments or events occurred after the date of the auditor's report that had a material effect on Government contract costs (such as, final determinations or resolutions of contingencies or other matters disclosed in the audit report or that had resulted in a departure from the auditor's standard report), for example:

- Required technical information is received after the audit report is issued and the results have a significant impact on the audit findings.
- Additional information is received which is necessary to reflect

resolution of unresolved costs contained in the audit report.

- Additional supporting information is provided by a contractor during the negotiation conference that would affect the report conclusions. However, there will be circumstances when supporting information is provided by a contractor during the negotiations and a supplemental audit report is not issued (see [15-403.2](#) and [15-404.1](#)).

FAR 15.404-2(c)(3) requires that contracting officers should provide updated information that will significantly affect the audit to the auditor. Auditors should assure that any subsequent audits comply with Generally Accepted Government Auditing Standards, including adequate testing of evidential matter and appropriate supervisory review. If this cannot be accomplished, there should be no appearance of concurrence with the updated information or implied amendment of the audit report recommendations.

e. If a report is not being supplemented as described in d. above, but must be issued with minor changes (e.g., to correct minor math errors), it should be marked as “revised” in accordance with [10-213.6](#) below.

10-213.2 General Requirements for Supplemental Reports **

a. A supplemental report must supersede the original audit report in its entirety. Incorporating replacement pages is not possible since electronic reports are furnished to the user in a signed and secured PDF format.

b. Dollars examined, questioned costs, unsupported costs, etc. initially reported will frequently require revision as a result of issuance of a supplemental audit report. As a result, performance data previously reported in the DCAA management information system should be revised as appropriate.

10-213.3 Supplemental Report Format **

Major components of a supplemental report are listed below. Discussion of the particular elements is contained in the referenced paragraphs. Except where noted, the format and contents of the supplemental report must comply with the basic audit report requirements in 10-204. For example, requirements for an audit report cover would not change, distribution requirements remain the same, etc.

- Report Title Page ([10-213.4](#))
- Table of Contents ([10-213.4](#))
- Executive Summary of Supplemental Audit ([10-213.4](#))
 - About [Contractor’s Name]
 - About this Supplemental Audit
 - What We Found in this Supplemental Audit

- Report on [Brief Description of Audit] of Supplemental Audit ([10-213.5.a](#))
 - Management’s Responsibility ([10-208.2](#))
 - Auditor’s Responsibility ([10-208.3](#))
 - Basis for [Type of Modified Opinion] Opinion of Supplemental Audit ([10-213.5.b](#))
 - [Type of Opinion] Opinion of Supplemental Audit ([10-213.5.c](#))
- Report on Other Matters of Supplemental Audit ([10-208.6](#))
- DCAA Personnel and Report Authorization of Supplemental Audit ([10-209](#))
- Audit Report Distribution and Restrictions of Supplemental Audit ([10-210](#))
- Exhibits of Supplemental Audit ([10-213.5d](#))
- Appendixes of Supplemental Audit ([10-212](#))

10-213.4 General, Report Title Page, Table of Contents and Executive Summary **

a. All the report pages should contain the original audit report number followed by a dash and the supplement number (e.g., -S1, -S2, etc.). If the original exhibit is to be replaced by a revised exhibit, all pages of the revised exhibit should show the supplement number.

b. The supplemental report date should be the date the supplemental report is signed.

c. The descriptive title on the report title page should identify the audit report as a supplement (i.e., Supplement to Independent Audit of . . .).

d. The section headings and subheadings on the table of contents should identify the audit report as supplemental.

e. The “What We Found in this Supplemental Audit” section of the executive summary should briefly state the net effect of the supplemental report and the primary reason(s) for the change. For example:

As a result of the technical review, total questioned costs of \$ in our original report are revised to \$, primarily because of recommended reductions to proposed material quantities and manufacturing labor hours.

10-213.5 Report Narrative **

a. The "Report on [Brief Description of Audit] of Supplemental Audit" section should state the reason why the supplemental report is being issued. For example:

This supplemental report incorporates the results of the Government report of technical evaluation, which was not received in time to be included in our original audit report dated . . .

b. The Basis for [Type of Modified Opinion] Opinion should be changed to reflect any related changes to the audit reservation. In some cases, this section of the report may not apply in the supplemental report. For example, if the only reservation in the original report was the result of non-receipt of the Government technical evaluation and the evaluation was received.

c. The [Type of Opinion] Opinion of Supplemental Audit section should briefly state the net effect of the supplemental report and the primary reason(s) for the change. The section should include a reference to the report exhibit(s) and schedule(s) for additional information, if applicable.

(1) If applicable, state the name and title of the contractor's designated representative with whom the supplemental results were discussed ([10-208.5d](#)).

(2) Advise the report recipient that the audit report has been replaced in its entirety (i.e., This supplemental report replaces our original report in its entirety).

d. The Exhibits and Schedules will provide the detailed effect(s) of the supplemental report and the primary reason(s) for the change. For example:

"As a result of the technical review, total questioned costs of \$ in our original report are revised to \$, primarily because of recommended reductions to proposed material quantities and manufacturing labor hours."

10-213.6 Revised Report Format **

If an electronically furnished report is not being supplemented as described in [10-213.1.d](#) above, but is being reissued in its entirety with minor changes (e.g., to correct minor math errors), the word "Revised," in parentheses, should follow the audit report number on the title page, in the header, and in the report's file name. Since no additional fieldwork was performed, the revised report should not carry a revised date. Revisions are to be made to the final version of the report. The revised final version of the report will then be converted to PDF, secured, digitally signed and issued. Do not identify the revised audit report as a supplement (see [10-213.1.e](#)). If subsequent revisions become necessary, they are to be identified as "Revision 2," "Revision 3," etc. The transmittal should identify the minor change(s) unambiguously.

10-214 Rescinding an Audit Report [](#)**

If a report is rescinded, prepare a memorandum indicating the reason for the rescission, a statement that the original report should not be referred to for future reference, and provide a point of contact for questions regarding the rescission. The memorandum subject line must include the original report number, date released, the subject of the report and the name and address of the contractor. Distribution should be limited to the original recipient(s) of the report (Procurement Contracting Officer, Administrative Contracting Officer, and/or Requesting DCAA Office). One example of a reason for rescinding a report is if subsequent to the date of the audit report, the auditor concludes that one or more procedures considered necessary at the time of the audit were omitted, and performance of such procedures may result in significant findings that impact the audit opinion.

Note on Chapter 10 Figures – all figures shown are for illustrative purposes only. Formatting may differ slightly from official CaseWare pro formas.

Figure 10-2-1 **

Audit Report Title Page

CUI



Audit Report No. XXXX-XXXXX21000XXX

Arizona Branch Office

2741 W Southern Avenue, Suite 14

Tempe, Arizona 85034-3440

July 19, 20XX

Independent Audit Report on Proposed Amounts in High Tech, Incorporated's Firm-Fixed-Price Proposal dated June 1, 2014

Controlled by: Arizona Branch Office

CUI Categories: PROPIN, PRVCY

POC: John W. Brown, (602) 379-4102

SPECIAL WARNING: The contents of this audit report must not be released or disclosed, other than to those persons whose official duties require access in accordance with Department of Defense (DoD) regulations. This document may contain controlled unclassified information (CUI) and may be exempt from mandatory disclosure under the Freedom of Information Act. Unauthorized disclosure of proprietary, contractor bid or proposal or source selection information may also violate Title 18 United States Code (U.S.C.) § 1905 and/or Title 41 U.S.C. § 2102. Please see the Audit Report Distribution and Restrictions section of this report for further restrictions.

CUI

A dark blue horizontal banner with white text. The text reads "Supporting the warfighter. Protecting the taxpayer." The word "warfighter" is in orange and "taxpayer" is in white. The DCAA logo is partially visible on the right side of the banner.

Supporting the **warfighter**. Protecting the **taxpayer**.

Figure 10-2-2 Table of Contents and Executive Summary [**](#)



Audit Report No. XXXX-XXXXX21000001

July 19, 20XX

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Audit Report No. XXXX-XXXXX21000001

July 19, 20XX

EXECUTIVE SUMMARY

ABOUT HIGH TECH, INC.

High Tech, Inc. is a wholly owned subsidiary of XYZ, Inc, address (i.e., Street, City, State, Zip Code). High Tech, Incorporated's, CAGE Code is XXXX. The company primarily engages as a subcontractor to provide a wide variety of components for large aircraft. High Tech, Inc. has 952 employees primarily located at its facility in Glendale, Arizona. It had FY 2013 sales of \$95 million, of which 80 percent benefited Government contracts.

ABOUT THIS AUDIT

We performed this audit at the request of Ms. Leah Jones, Contracting Officer, at Redstone Arsenal. High Tech, Inc. submitted its \$15,141,268 firm fixed price proposal on June 10, 2014, in response to solicitation number RFQ-2014Q523.

WHAT WE FOUND

The contractor significantly overestimated its labor hours; as a result, we questioned \$850,000. Additionally, we identified \$175,000 of unallowable indirect expenses.

Figure 10-2-3 Report on Proposed Amounts ******

CUI

Audit Report No. XXXX-XXXXX21000XXX

July 19, 20XX

REPORT ON PROPOSED AMOUNTS

We examined High Tech, Inc.'s May 1, 20XX Firm Fixed Price (FFP) proposal to determine if proposed amounts comply with solicitation terms related to pricing as of June 30, 20XX. The \$15,141,268 proposed amount is in response to solicitation RFQ-2014Q523 for 28 torque Inverters for the Orville I aircraft. High Tech, Inc. proposed a performance period of October 1, 20XX to September 30, 20XX.

Management's Responsibility

High Tech, Inc.'s management is responsible for the preparation of proposed amounts in compliance with the criteria cited above, including the design, implementation, and maintenance of internal control to prevent or detect and correct noncompliance due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on High Tech, Inc.'s compliance based on our examination. We conducted our examination in accordance with Generally Accepted Government Auditing Standards (GAGAS).

GAGAS requires that we plan and perform the examination to obtain reasonable assurance about whether High Tech, Inc.'s proposed amounts materially comply with the criteria cited above. An examination includes performing procedures to obtain evidence about whether High Tech, Inc.'s proposed amounts materially comply with the criteria cited above. The nature, timing, and extent of the procedures selected depend on our professional judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error, and involve examining evidence about the proposed amounts.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion. Our examination does not provide a legal determination on High Tech, Inc.'s compliance with the criteria cited above.

We are required to be independent and to meet our other ethical responsibilities in accordance with GAGAS.

There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

CUI

Figure 10-2-4 DCAA Personnel **

CUI

Audit Report No. XXXX-XXXXX21000001

July XX, 20XX

DCAA PERSONNEL

Primary contact(s) regarding this audit:

Mary E. Green, Senior Auditor
Kay J. Jones, Supervisory Auditor

Telephone No.

(602) 561-3112
(602) 561-3112

Other contact(s) regarding this audit report:

John W. Brown, Branch Manager
John A. Smith, Financial Liaison Advisor

(602) 379-4102
(301) 757-7852

Arizona Branch Office
John A. Smith, Financial Liaison Advisor

FAX No.
(602) 379-4601
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DCAA Arizona Branch Office
John A. Smith, Financial Liaison Advisor

E-mail Address
dcaa-faoxxx@dcaa.mil
dcaa-fla-xxxx@dcaa.mil

General information on audit matters is available at <http://www.dcaa.mil>.

AUDIT REPORT AUTHORIZED BY:

John W. Brown
Branch Manager
DCAA Arizona Branch Office

CUI

Figure 10-2-5 Audit Report Distribution and Restrictions ******

CUI

Audit Report No. XXXX-XXXXX21000XXX

July 19, 20XX

AUDIT REPORT DISTRIBUTION

	<u>E-mail Address</u>
Procuring Contracting Officer ATTN: AIR 2.2.1 Naval Air Systems Command, Headquarters Bldg. 2272 47123 Buse Road Patuxent, MD 20670-1547	grayjs@navair.navy.mil Officer
Administrative Contracting Officer ATTN: DCMA-GXAF (J. Doe) Defense Contract Management Agency Phoenix, AZ 85034-1012	jdoe@dcma.mil
DCAA Financial Advisor ATTN: DCAA FLA (J. A. Smith) Naval Air Systems Command Bldg. 2272 AIR 2.0 47123 Buse Road Patuxent, MD 20670-1547	dcaa-fla-navair@dcaa.mil

RESTRICTIONS

1. The contents of this audit report should not be released or disclosed, other than to those persons whose official duties require access in accordance with Department of Defense (DoD) Instruction 5200.48, Controlled Unclassified Information, effective March 6, 2020. This document may contain information exempt from mandatory disclosure under the Freedom of Information Act. Exemption 4, of the Freedom of Information Act, which addresses proprietary information, may apply.

It is not practical to identify during the conduct of the audit those elements of the data which are proprietary. You should make proprietary determinations in the event of an external request for access. Unauthorized disclosure of proprietary information violates Title 18 United States Code (U.S.C.) Chapter 93, §1905 and, if the information is contractor bid or proposal or source selection information, Title 41 U.S.C. Chapter 21 § 2102. Any person who unlawfully discloses such information is subject to penalties such as fines, imprisonment, and/or removal from office or employment.

CUI

CUI

2. Under the provisions of Title 32, Code of Federal Regulations (CFR), Part 290.7(b), the Defense Contract Audit Agency will refer any Freedom of Information Act requests for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.

3. The Defense Contract Audit Agency has no objection to the release of this report, at the discretion of the contracting agency, to authorized representatives of HTI.

4. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

CUI