

Master Document – Audit Program

Activity Code 12500	Follow-Up Contractor Business System Compliance Audit, DFARS 252.242-7004 - Material Management and Accounting System (MMAS)
B-1 Planning Considerations	Version 1.0, Feb 2025
Type of Service - Attestation Examination Engagement	
Audit Specific Independence Determination	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this working paper. For example, an FAO may add additional auditors (e.g., technical specialists) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p>	
Purpose and Scope	
<p>1. The objective of this audit is to examine the contractor's revised business system practices (corrective actions) in response to the previously reported material weaknesses and/or system deficiencies and determine if the revised business system practices adequately respond to the outstanding material weaknesses and/or system deficiencies and are compliant with the Defense Federal Acquisition Requirements Regulation Supplement (DFARS) business system requirements.</p> <p>A material weakness and system deficiency are considered outstanding unless the contractor has corrected the deficiency and DCAA has performed a follow-up audit and found the revised business system practice to be compliant with the DFARS criteria. As a part of that objective, auditors must ensure this examination is aligned with the guidance below:</p> <ul style="list-style-type: none">• The scope of the examination should only include revised business system practices that respond to the previously reported material weaknesses and/or system deficiencies;• The audit program encourages the audit team to hold ongoing discussions between the FAO and ACO. The audit team should obtain and document an understanding of the revised business system practices related to the previously reported material weakness/system deficiencies, and its compliance with the applicable DFARS criteria;• Tailor the audit program to reflect the audit procedures applicable to the area(s) related to the previously reported material weaknesses and system deficiencies and the responding revised business system practices. Auditors should plan and perform procedures necessary to achieve the examination objectives in determining compliance with DFARS 252.242-7004;	

Master Document – Audit Program

Purpose and Scope
<ul style="list-style-type: none">• Issue an audit report advising recipients of the status of the revised business system practices and if they comply with DFARS 252.242-7004.
<p>2. Other Audit Considerations</p> <p>GAGAS requires auditors to identify the previously reported findings and determine if the recommendations provided were implemented. Auditors should evaluate whether the audited entity has revised its business system practices addressing findings and recommendations from the previous business system examination. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current work and determining the extent to which testing the implementation of the business system practice is applicable to the current examination engagement objectives.</p>
<p>3. Preferably, performance of this audit should occur after all corrective actions (revised business system practices) have been implemented and sufficient transactions are readily available to examine and test for compliance with the applicable DFARS business system requirements.</p> <p>What constitutes sufficient transactions will depend on factors such as the nature of the deficiency and the affected control, the frequency of the control’s application, and the volume of transactions to which it is applied. Therefore, significant upfront coordination with the contractor is required to gather this information.</p> <p>If the audit team believes that a sufficient number of transactions are not available to examine the revised business system practices and provide an audit opinion, the audit team should not continue their audit efforts and coordinate with the Contracting Officer and contractor to determine the best time to initiate and complete the examination.</p> <p>If the audit teams determine that a sufficient number of transactions are available for examination, the audit team should continue the examination and initiate a planning meeting with contractor personnel prior to the formal entrance conference.</p>
<p>4. The audit program should be tailored to examine the previously reported material weakness and system deficiencies, which should include the implemented revised business system practices and allow the audit team to determine compliance with the applicable DFARS criteria.</p> <p>However, if the follow-up audit discloses a material weakness, and or system deficiency that was not previously reported, it should be included in the follow-up audit report. Auditors should develop the elements of the finding to the extent necessary to assist management or oversight officials of the audited entity in understanding the need for taking additional corrective action.</p>
<p>5. The audit report will be limited to the previously reported material weaknesses/system deficiencies, the revised business system practices and compliance with the applicable DFARS criteria during a period of time, consistent with the attestation reporting standards. The period covered should limit the elapse of time between the period in which the transactions were</p>

Master Document – Audit Program

Purpose and Scope
created and the issuance of the report to the extent possible. For example, the audit team may decide to wait until it has obtained and documented the understanding of the revised business system practices and its impact on the system before finalizing the period covered by the audit. Accordingly, the team may adjust the timing of some of the planning steps below.
6. In some instances, the auditor may use the same sample/judgmental selection to test the specific DFARS criteria being examined under the follow-up audit. If so, the auditor needs to ensure the sample/judgmental selection is sufficient to cover all of the revised business system practices being examined. Audit teams may choose to use judgmental selections and must ensure with this method that there is representative testing performed. Whichever method is used, the audit team must determine whether the contractor's revised business system practices are adequate to correct the previously reported material weaknesses/system deficiencies and comply with the DFARS criteria.
7. FAOs should follow CAM 5-110 to determine the appropriate audit opinion and prepare the audit report. The audit report should also be modified to include language that reflects the completion of a follow-up estimating business system examination and contain the period of testing for the follow-up audit effort.
DFARS and GAGAS REPORTING REQUIREMENTS:
8. GAGAS 7.42 requires auditors to report all deficiencies in internal control that are significant deficiencies or material weaknesses as defined in the AICPA auditing standards definitions.
9. Deficiencies in compliance with the DFARS criteria that are both material weaknesses and system deficiencies will be included as a separate Exhibit to the audit report.
UNDERSTANDING AUDIT CRITERIA
Read CAM guidance and obtain an understanding of the DFARS regulations identified in the reference section below.
References
<ul style="list-style-type: none">• DFARS Subpart 242.72, Contractor Material Management and Accounting Systems, (Contract Administration Policies and Procedures)• DFARS 252.242-7004, Material Management and Accounting System, (Contract Clause)• CAM 5-111, Follow-Up Business System Audits• CAM 5-106, Obtaining an Understanding of the Contractor Business Systems• CAM 5-400 Audit of Compliance with DFARS 252.242-7004, Material Management and Accounting System• CAM 5-505, Business System Reporting• CAM 10, General Audit Report Quality, Format and Contents

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
Version 1.0, dated Feb 2025	
INITIAL PLANNING	
<p>1. Initial Team Discussion</p> <p>a. Hold a preliminary planning meeting with the audit team (e.g., RAM, FAO Manager, Supervisor, Technical Specialists, and Auditors). Topics should include the following as it relates to the previously reported material weaknesses and/or system deficiencies:</p> <ol style="list-style-type: none">1. relevant environmental factors and information related to the nature of the entity;2. procedures to obtain and document an understanding of the revised business system practices;3. the objectives of the audit (examining the contractor's revised business system practices for compliance with DFARS 252.242-7004); and4. coordination needed with other DCAA offices (e.g., CADs or other locations where system functions may be performed, FD, etc.).	
<p>2. Review the previously issued MMAS system audit report, identify and briefly summarize the reported material weaknesses and system deficiencies, recommendations and the contractor's response to the reported audit findings.</p>	

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
<p>3. Review the Administrative Contracting Officers (ACOs) final determination:</p> <ul style="list-style-type: none">a. Identify and document the outstanding material weaknesses and system deficiencies.b. Identify and analyze the contractor's corrective action plan (CAP) and determine if the planned corrections as described appear to address the outstanding material weaknesses and system deficiencies/root cause. <p>If the auditor determines that any of the planned corrective actions (the revised business system practices) will not sufficiently address the previously reported deficiencies, the auditor should hold a discussion with the ACO and confirm if the auditor should move forward with the audit or provide the contractor additional time to plan corrective actions (the revised business system practices) that appear to be responsive to the previously reported deficiencies.</p> <p><i>If the corrective action appears to be sufficient to address the previously reported deficiencies, the auditor should document the rationale and use this information as a basis to determine the extent of testing across the outstanding deficiencies.</i></p> <p><i>Only those material weaknesses and system deficiencies previously reported in a business system audit will be included in the scope of the follow-up business system examination.</i></p> <p><i>If there are previously reported material weaknesses and system deficiencies that were not sustained by the ACO, the audit team should initiate communication with the ACO and hold discussions on including those deficiencies in the Follow-Up Contractor Business System scope of audit. If necessary, (after discussion with DCAA management) elevate any disagreements and follow guidance discussed in CAM I-403.3, Resolving Contract Audit Recommendations, if needed.</i></p>	
<p>4. Notify the appropriate contracting officer of the commencement of the follow-up business system audit and that the expected completion date will be provided in the formal acknowledgement once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.</p>	
<p>5. Hold a planning meeting with the contractor's manager(s) responsible for the MMAS to:</p>	

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
<ul style="list-style-type: none">a. Provide notification of the upcoming follow-up business system audit and confirm the final implementation date for all corrective actions (revised business system practices) prepared in response to the Administrative Contracting Officers final determination.b. A high-level overview on the purpose of the follow-up business system examination and the limited scope.c. Inquire about the locations of inventory and production facilities since implementation of the corrective actions (revised business system practices) to determine if coordination with other DCAA offices is necessary.d. Scheduling the entrance conference and live demonstration for each revised business system practice. Request that the contractor be prepared to provide a general overview of all corrective actions (revised business system practices) during the entrance conference.	
6. Hold a discussion with the ACO regarding any concerns related to the outstanding deficiencies and compliance with the DFARS criteria since implementation of the revised business system practices. Invite the ACO to the contractor system demonstrations and document the results of this coordination and consider it in planning the audit.	
7. Draft the Contractor Notification Letter. The proforma Contractor Notification Letter contains a list of information generally needed to perform the follow-up business system audit and identifies the key areas that should be addressed during system demonstrations.	
PERM FILE REVIEW	

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
<p>8. Review permanent file to determine if any previous audits (completed after the contractor's final implementation date) included findings and recommendations that impact the previously reported material weaknesses and/or system deficiencies. If there were findings, document this information in the risk assessment and perform the following procedures:</p> <ul style="list-style-type: none">a. Ask contractor management if additional corrective actions were taken to address the system deficiencies and recommendations reported in the previous DCAA audit(s). If yes, have contractor explain the revised business system practices and determine if additional audit procedures should be included in the fieldwork to determine DFARS compliance. (GAGAS 7.13).b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit.	

Master Document – Audit Program

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

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
ENTRANCE CONFERENCE/WALK THROUGH DEMONSTRATIONS	
<p>10. Hold an entrance conference. The purpose of the entrance conference and contractor demonstrations is to obtain and document an understanding of the revised business system practices related to the previously reported material weaknesses/system deficiencies, and its compliance with the applicable DFARS criteria. During the entrance conference:</p> <ul style="list-style-type: none">a. Provide the Contractor Notification Letter and discuss the information being requested from the contractor;b. Discuss the purpose of the follow- up business system audit and expectations, such as the demonstration requirements specific to the revised business system practices, the level of detail that should be covered in the demonstrations and who should participate in the meetings;c. Have the contractor provide a general overview of the MMAS system and its processes (to be done at the system demonstration/walk-through) for the revised business system practices, including any subsystems as applicable;d. Establish dates for demonstrations on the key processes of the revised business system practices. The demonstrations should be held early in the process; ande. Follow up with contractor management on any additional information related to the revised business system practices that address the previously reported material weaknesses/system deficiencies.	

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
<p>11. System Demonstrations and Documenting an Understanding of the revised business system practices related to the previously reported material weaknesses/system deficiencies, and its compliance with the DFARS criteria. (The entire team should attend the demonstrations, if possible).</p> <p>During the demonstrations the audit team should make detailed notes specific to the revised business system practices implemented in response to the previously reported material weaknesses/system deficiencies to include system descriptions, policies, and procedures, etc. to obtain and document their understanding of the corrective actions. Ask questions to ensure a sufficient understanding is obtained and be sure the personnel responsible for the revised processes are in attendance.</p> <p><i>To be consistent with the purpose and scope of the follow-up audit, only those material weaknesses and system deficiencies previously reported will be included in the system demonstration(s).</i></p> <p><u>Note: Inquiry alone is not sufficient to obtain an understanding of the contractor's internal controls.</u> Procedures to obtain evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry.</p>	

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
<p>12. During the entrance conference or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following <u>as it pertains to the previously reported material weaknesses/system deficiencies</u>:</p> <ul style="list-style-type: none">a. Their knowledge of any actual, suspected, or alleged fraud or noncompliance with laws and regulations affecting the period of time corresponding to the subject matter under audit. (AT-C 205.33)b. If any specialists (internal or external) were used in the preparation of the subject matter. If yes, have the contractor explain how the specialists were used in the preparation of the subject matter. (AT-C 205.16)c. Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject matter. (GAGAS 7.14)d. The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13) <p><i>Note: Specifically document in the working papers; the inquiries and the corresponding responses as well as how the responses affect the performance of the engagement.</i></p>	
<p>13. Document any risks the audit team identified during the entrance conference or contractor demonstrations that impacts the previously reported deficiencies, where applicable.</p>	
RISK ASSESSMENT SUMMARY AND DISCUSSION	

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
<p>14. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential material noncompliances, whether due to error or fraud, that could affect the examination.</p> <p>The discussion should include:</p> <ul style="list-style-type: none">• relevant aspects of the contractor and its environment;• risk of material noncompliance due to fraud (e.g., the extent of financial incentives, pressures to meet budget or contractual commitments, and opportunities to commit and conceal fraud). Consider the DoD IG website Fraud Detection Resources for Auditors for common fraud risk factors. Copy link and paste into web browser;• other factors identified that increase the risk of material noncompliance with laws and regulations; and• the audit team's understanding of relevant key internal controls specific to the previously reported material weaknesses/system deficiencies. <p>Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect the limited scope examination, and design audit procedures to respond to the increased risk of material noncompliance.</p> <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of material misstatement and noncompliance due to error or fraud.</p>	
<p>15. Finalizing/Summarizing the Understanding of the Revised Business System Practices (Corrective Actions) and its impact on the MMAS System.</p> <p>This step completes the first objective of the follow-up business system audit and is critical since the documented understanding of the corrective actions serves as the basis for planning the audit and determining if the revised business system practices comply with the applicable DFARS criteria. This should enable the audit team to design audit procedures to test contractor compliance with DFARS 252.242-7004.</p>	
<p>a. For the corrective actions relevant to the scope of audit, obtain and document an understanding of the contractor's revised business system practices related to compliance with the DFARS criteria.</p>	

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
b. Using the information obtained during the entrance conference and system demonstrations, finalize and document the previously reported material weaknesses/system deficiencies and your understanding of the contractor's revised business system practices, cross-referencing it to detailed descriptions and information obtained and documented during the contractor's demonstrations (e.g., flowcharts, policies and procedures, desk procedures, screenshots, etc.).	
c. Prepare a high-level summary of your understanding of the contractor's revised business system practices for the previously reported material weaknesses/system deficiencies. After the detailed summary understanding has been documented and reviewed by your supervisor, provide the summary to the contractor and obtain written confirmation from the contractor that the understanding is accurate.	
d. Summarize the high-risk areas identified during the demonstrations of the revised business system practices and other preliminary steps and prepare audit procedures to address the identified risk.	
16. Consider the need for specialist assistance, if any, and document on working paper B-03.	
17. Initial Risk Assessment. Document the risk factors identified during team discussions and risk assessment procedures impacting the limited scope examination. Audit teams should prepare and design audit procedures necessary to review the revised business system practices related to the previously reported material weaknesses/system deficiencies, and its compliance with the applicable DFARS criteria.	
18. If the audit team obtained sufficient, appropriate evidence during the risk assessment to conclude on the compliance of the revised business system practice with any individual criterion, document the basis for the conclusions in the risk assessment working papers and on WP B-00. Additionally, determine and document the reliability of the information the audit team used to reach their conclusions on compliance with those specific criteria.	
19. The audit report will opine on DFARS 252.242-7004(d) system criteria compliance of the contractor's revised business system practices for a specified period of time. Plan the limited scope audit and select transactions within the time period under audit. Limit the time between the material transaction testing and report issuance to the extent possible. (For example, the audit team may decide to document the understanding of the revised business system practices before finalizing the period for any planned substantive testing.) Accordingly, the team may adjust the timing of some of the planning steps below.	

Master Document – Audit Program

B-1 Preliminary Steps	WP Reference
a. Since full implementation of the contractor's corrective actions, review the contract mix and universe of material dollars provided by the contractor for the period. Verify completeness and accuracy of the schedule.	
b. Verify the DFARS 252.242-7004 MMAS clause is included in the contracts identified by the contractor. Test the completeness and accuracy of the contractor provided data (e.g. compare to EDA, Federal Procurement Spending Data, DCMA records or information available in Shared Data Warehouse accessible through PIIIE, and FAO records).	

Master Document – Audit Program

C-01 Planned Audit Procedures		WP Reference
Version 1.0, dated Feb 2025		
<i>Audit teams should prepare and design audit procedures necessary to examine the revised business system practices related to the previously reported material weaknesses/system deficiencies and its compliance with the applicable business system criteria in DFARS 252.242-7004.</i>		
<i>Audit teams should use judgement on how to organize the working paper (WP) sections (by DFARS criteria, Audit Area or Other Logical Grouping) to cover each material weakness and system deficiency that is within the scope of audit.</i>		
1.		
2.		
3.		
4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.		

Master Document – Audit Program

A-1 Concluding Steps	WP Reference
Version 1.0, dated Feb 2025	
1. Team discussion. Hold a meeting with the audit team (e.g., RAM, Manager, Supervisor, Technical Specialists and Auditors) and discuss the results of audit, making a final determination on the adequacy of the contractor's revised business system practices and the impact on the conclusions and opinion in the audit report. If the revised business system practices were deemed inadequate and deficiencies still exist, summarize the deficiencies by the applicable DFARS MMAS system criteria. Distinguish between deficiencies that are considered material weaknesses from those that are system deficiencies.	
2. Summarize results and draft the audit report. The draft audit report should include all previously reported material weaknesses and system deficiencies and will include a description of the deficiency, status of the corrective action and status of any prior recommendations. This new report should reference the previous report(s). <i>Note: FAOs should follow CAM 5-110 to determine the appropriate audit opinion and prepare the audit report. The audit report should also be modified to include language that reflects the completion of a follow-up business system examination, and contain the period of testing for the follow-up audit effort.</i>	
3. Auditors should communicate significant or complex findings with the contracting officers upon the completion of the audit and, when there are no findings, determine if inclusion of detailed explanatory notes in the audit report would serve a useful purpose.	
4. If the follow-up audit disclosed a material weakness and/or system deficiency not previously reported, it should be included in the follow-up audit report. Auditors should develop the elements of the findings to the extent necessary to assist management or oversight officials in understanding the need for taking additional corrective action.	
5. Obtain supervisory review of the working papers, and draft audit results section of the audit report before discussions with the contractor.	
6. After obtaining DCAA management approval, hold and document the exit conference in accordance with CAM 4-304. Obtain the contractor's reaction regarding all deficiencies included in the report.	
7. Finalize the audit report and incorporate the contractor's reaction and auditor's response.	
8. Update the permanent file in accordance with CAM 4-405b. A copy of the documented understanding of the MMAS system corrective actions should	

Master Document – Audit Program

A-1 Concluding Steps	WP Reference
be filed in the permanent file as well as a summary of previously reported system deficiencies that are still determined to be noncompliant with the DFARs criteria; if applicable.	
9. Brief the FAO on findings and any effect on FAO future audits.	