

MASTER AUDIT PROGRAM

Activity Code 10310	Non-Major Contractors Labor Floorchecks or Interviews
Version 4.0, dated July 2020	
B-1	Planning Considerations
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	
1. The purpose of this engagement is to test:	
<ul style="list-style-type: none"> • the contractor's compliance with its timekeeping internal controls and procedures; and 	
<ul style="list-style-type: none"> • the reliability of employee time records. 	
<ul style="list-style-type: none"> • Also, to verify that: 	
<ul style="list-style-type: none"> • employees are actually at work; 	
<ul style="list-style-type: none"> • they are performing in assigned job classifications; and 	
<ul style="list-style-type: none"> • time is charged to the proper cost objective. 	
2. This program should be used to perform labor floorchecks at nonmajor contractor locations. Labor floorchecks must be performed for the current year during the first field visit to the contractor facility within the year.	
3. Floorchecks are most appropriate when no high-risk areas have been identified. If audit leads from prior evaluations suggest significant risk exists, the auditor may consider performing detailed labor interviews. The extent of audit effort in testing and verifying labor costs is dependent on the perceived audit risk and is influenced by (1) the nature and significance of labor and related expenses, (2) prior audit experience with the contractor, (3) the reliability and acceptability of the contractor's labor system and related internal controls, (4) the contractor's mix of contracts and nature of contract provisions, and (5) the nature of the contractor's organization and operations.	
Other Planning Considerations	

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Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately.
References
1. CAM 6-400 – Audit of Incurred Labor Costs
2. CAM 6-800 – Assist Audits of Incurred Costs
3. CAM 4-702.3 – Audit Procedures for Detecting and Responding to Fraud Indicators/Factors
4. CAM Figure 4-7-3 – Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas

B-1	Preliminary Steps	WP Reference
Version 4.0, dated July 2020		
1.	Review permanent files to obtain an understanding of the contractor's labor accounting policies and procedures. Contractor organization charts, labor charging and distribution system flowcharts, and listings of current Government contracts are very useful sources of information and should be referred to often during the analysis. All relevant information gathered during the audit should be referenced in the permanent file.	
2.	Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures: <ol style="list-style-type: none"> a. Ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) and other audits or studies that are relevant to the subject matter of audit. If yes, have contractor explain the corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions. (GAGAS 7.13) b. Document the results of the inquiry and the impact of the corrective actions to the subject matter. 	
3.	Review the permanent file to determine prior coordination with Field Detachment related to labor type audits or prior floorchecks. Assess the need for Field Detachment coordination during the risk assessment phase of this floorcheck.	
4.	Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject	

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<p>matter. If there are no other studies or audits, document that information in the working papers and perform the procedures below.</p> <ol style="list-style-type: none">a. Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.b. If the review of the perm file or the contractor identifies relevant internal audits:<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.c. If the review of the perm file or the contractor identifies relevant other audits or studies:<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 assessed risk and planned procedures based on the reported findings.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).e. Determine if additional audit procedures are needed to respond to identified risk.	
<p>5. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's key internal controls that are relevant to the subject matter. Auditors should be able to</p>	

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obtain a major portion of this understanding during a walkthrough of the subject matter.	
6. Contact the contracting officer to ascertain any known concerns that impact the subject matter and adjust the audit scope and procedures accordingly.	
7. Identify and document the need for specialist assistance based on the understanding of the labor charges (e.g., if the work is technical in nature such that the audit team might be unable to determine whether the employee is performing the effort being charged). Considering assessed risk and materiality, prepare a detailed request for specialist assistance if required.	
8. Notify the appropriate contracting officer of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.	
9. Obtain a listing of employees by location. The listing should be obtained far enough in advanced to allow sufficient time for the FAO to perform the floorcheck on an unannounced basis. Determine if any assistance is required for any off-site locations through the one audit approach or assist audits. Request and track any assist audits in accordance with CAM 6-805 and CAM Figure 6-8-1.	
10. If the contractor has an employee work-at-home program assess the materiality of the costs incurred by employees in the program. See CAM 6-405.5.	
11. During the first visit to the contractor, hold an entrance conference with appropriate contractor representatives to exchange preliminary information about the audit and to enable the contractor to provide a briefing about its labor charging and allocation policies.	
a. Obtain an understanding of the contractor's timekeeping procedures and document the process.	
(1) Determine whether employee attendance is controlled by clock cards, timecards, other suitable time and attendance records, or are input and captured electronically.	
(2) Identify the process for controlling employee time records at each timekeeping station or the electronic timekeeping input and related records.	
(3) Determine the procedures for notifying the employee of the assigned job number and whether the procedures provide that all changes are properly initialed/approved by the employee and the designated approving supervisor.	

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<p>(4) Determine whether hours shown on the timecards or input electronically are reconciled periodically with hours recorded on attendance and payroll records.</p>	
<p>(5) Determine whether there is a division of responsibility between personnel responsible for the preparation and/or approval of time and attendance records and those responsible for preparation and distribution of payroll (CAM 6-405.2e).</p>	
<p>(6) Determine whether there is a division of responsibility between personnel having a part in the preparation and/or approval of time and attendance records and those responsible for operating within budgets. (CAM 6-405.2f) If a division of responsibility does not exist, consider if there is increased risk affecting payroll due to the proportion of personnel that an individual employee/manager can influence.</p>	
<p>(7) Determine whether procedures have been established for coding and recording idle time.</p>	
<p>(8) Determine whether records of piece work and work performed under wage incentive plans are checked and controlled independently from production counts, approvals for allowances, and other operations.</p>	
<p>b. Discuss the general time period of audit performance.</p>	
<p>c. Advise the contractor that the evaluation will include unannounced interviews and floorchecks.</p>	
<p>d. Request the contractor designate a representative and an alternate to accompany the audit team during the interviews and floorchecks. A representative and alternate should be designated for each of the contractor's locations.</p>	
<p>e. Establish procedures for conducting interviews and floorchecks. Inform the contractor that documentation will be requested from the employee during the interview or floorcheck to support the labor effort being charged/allocated to the Government.</p>	
<p>f. Request the contractor to provide a representative to facilitate the audit and for discussing audit progress and findings.</p>	
<p>g. Follow up with contractor management on corrective actions that address previous DCAA audit findings.</p>	
<p>h. Follow up with contractor management regarding other studies and audits (e.g., internal auditors, consultants, Independent Public Accountants) that impact the subject matter</p>	

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<p>12. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <ol 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 205.32)b. Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject matter. (GAGAS 7.14)c. The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13) <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. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential material noncompliances, whether due to error or fraud, that could affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none">• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),• 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. <p>Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect the subject matter, and design audit procedures to respond to the increased risk of material noncompliance.</p>	

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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.	
14. Prepare the Contractor Notification Letter to be provided to the contractor at the first unannounced floorcheck. Generally follow the guidance in CAM 4-302.3a; however, to avoid giving advance notice of the floorcheck, the notification letter should not be provided prior to the first unannounced floorcheck.	

C-1	Floorcheck Procedures	WP Reference
	Version 4.0, dated July 2020	
	Note: Observations of work areas (floorchecks) are appropriate when there is limited Government risk or vulnerability.	
	1. Obtain a control list or roster of employees assigned to the department or area to be checked. (The detail listing obtained in Section B-1, step 9 above, may be sufficient for your use.)	
	2. Select employees to be floorchecked. If random selection is used, follow the procedures described in the Attribute Sampling Guidebook located on the DCAA intranet.	
	3. Obtain a plant layout and note the selected employees' locations. Coordinate with the cognizant Field Detachment office for employees located in secure locations, such as a Sensitive Compartmented Information Facility (SCIF) or Special Access Program Facility (SAP-F).	
	4. Obtain appropriate background data on the selected employees, such as ID numbers, job classifications, nature of work usually performed, and their department or cost center, prior to conducting the floorcheck.	
	5. Prepare worksheets to use during the floorchecks to help guide the questioning and facilitate the recording of the employee's responses. (See Floorcheck Questionnaire For Electronic Timekeeping System "Other Audit Guidance".)	
	6. Brief audit team members on the overall audit objectives and necessary background information.	
	7. Floorcheck the employees selected.	
	8. If, during the interviews, a selected employee is found to be located in a secure or restricted area/facility (SCIF or SAP-F) the employee should not be removed from the secure location to perform the interview. Request floorcheck assistance from the cognizant Field Detachment office.	
	9. Identify each selected employee by verifying the employee's ID number and name to the control list or roster.	

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10. Inquire about the nature of the work being performed by the employee and observe the actual work performance to determine whether the employee is performing in the proper direct or indirect labor capacity and whether the time is being charged correctly. If the work is technical in nature, assess the need for obtaining specialist assistance.	
11. Inquire about the employee's timekeeping procedures to determine compliance with internal controls.	
12. Compare employee responses with previously gathered data. If inconsistent, ask appropriate follow-up questions.	
13. For selected employees not available for the interview, attempt to perform a follow-up interview. If a follow-up interview is not practical, perform additional procedures to verify employee existence. These procedures may include observing employee work areas, evaluating personnel or security files, telephone interviews, etc..	
14. When an employee selected to be floorchecked is not present at the normal work-site due to a work at home (WAH) program, interview the employee's supervisor. Concentrate the discussion with the supervisor to obtain evidence of the employee's work and evidence of supervisory control over the employee's WAH schedule. Communicate with the employee by telephone to determine the employee's knowledge of WAH procedures, and discuss the specific type of work being performed, along with the related labor charge numbers. In addition, verify the individual's employment to the payroll/personnel records. See CAM 6-405.5.	
15. Obtain explanations concerning all questionable procedures observed. This may require discussions with employee supervisors, contractor management, accounting, and other appropriate personnel.	
16. Reconcile the observations regarding the employees' labor charges with subsequent payroll and labor distribution records and follow-up on any discrepancies. For assist audits conducted at off-site locations, the auditors at the primary location are responsible for reconciling the time charges collected at the time of the employees' floorchecks to the labor distribution records when the official books and records are maintained at the primary location.	

D-1	Development of Findings	WP Reference
Version 4.0, dated July 2020		
1.	Analyze the data gathered during the floorchecks and information previously gathered to establish the propriety of the labor charges.	
2.	Discuss audit results with the audit supervisor.	

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<p>3. If the existence of high risk areas (CAM 6-404.7) are identified from the audit leads, consider expanding the audit and performing detailed employee interviews in accordance with the steps in the Pre-Interview Analysis (section E) and Conducting Employee Interviews (section F) to isolate the condition and more fully develop an audit position and cost impact. If conditions which raise a reasonable suspicion of fraudulent or other suspected irregular activities are disclosed and cannot be resolved through audit, promptly report these in accordance with CAM 4-702.4.</p>	
<p>4. If no high risk areas are identified, determine any cost questioned related to labor mischarges.</p>	
<p>5. Incorporate assist audits, update the FAO assist audit tracking system (CAM 6-805.), and follow-up on any outstanding assist audits.</p>	

E-1	Pre-Interview Analysis	WP Reference
Version 4.0, dated July 2020		
1.	Read CAM 6-404.8.	
2.	For each high risk area identified, determine the population of related employees.	
a.	Evaluate recent labor distribution documents and payroll runs to identify all employees charging labor effort or assigned to the risk area. (Consider using data retrieval software programs.)	
b.	Prepare a schedule of employees charging a major portion of their time to the risk area.	
c.	Evaluate other relevant available documentation related to the risk area (i.e., organization charts, travel reports, contract files, work authorizations, material inspection and receiving reports, contract status reports, etc.). This evaluation may identify employees who have worked on the contract but have not charged labor effort to it.	
d.	For employees identified in steps 2.a. and c. above, schedule labor time charges for an appropriate recent period of time.	
e.	Determine if any significant trends, potential irregularities, or inconsistencies in charging patterns exist. Make note of these employees.	
f.	For employees identified in step 2.e., inspect timecards, electronic labor input reports, or other labor entry source documents starting with the most current time period. Analyze each source document (i.e., timecard or electronic entry documentation) for patterns of consistent time splitting, changes in charging patterns, corrections, alterations, or indications that someone other than the employee is	

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<p>completing the timecard or electronically inputting the employee's time.</p>	
<p>g. For employees identified in step 2.f. above, evaluate and compare travel expense reports to labor distribution charges. Note any potential irregularities or inconsistencies between the charges and the expense reports.</p>	
<p>h. Understand the nature of the work of each contract/cost objective charged by these employees during the test period, the time spent on each job, and other relevant information.</p>	
<p>3. Select employees for interviews based on the results of the evaluation performed in step 2 above. Select those employees whose time charges and other documentation indicate a high probability of mischarging.</p>	
<p>4. If no employees in the risk area appear to have questionable time charges, discuss terminating the evaluation of the risk area with the audit supervisor.</p>	
<p>5. For those employees selected for interviews, prepare working papers to document the interview. Working papers should include, in addition to the items identified in step 6, the date of the interview, attendees, reason for employee selection, interview summary, audit conclusion, and any follow-up audit work necessary.</p>	
<p>6. Formulate the questions to be asked during each interview. The questions should be factual in nature, tailored to each employee to be interviewed, and designed to confirm or dismiss the suspected mischarge or more fully explore the high risk area. Avoid questions which solicit the employee's opinion. In addition to the specific tailored questions for each employee, general information should be solicited from each employee, such as:</p> <ul style="list-style-type: none"> a. employee name and ID number b. current job title, position description c. current projects and period of performance d. description of work performed during the period under evaluation e. percentage of time spent on each project f. charge numbers/accounts used to record time spent on each project g. employee's timekeeping procedures, including any informal records used to record time and identify projects h. if applicable, the employee's supervisory responsibilities and related procedures, including assigning and reviewing the work of subordinates; reviewing, changing, and approving time charges; controlling project costs/budgets; approving overtime; etc. 	

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7. Discuss the questions to be asked each employee with the audit supervisor.	
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F-1	Conducting Employee Interviews	WP Reference
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1.	Read CAM 6-404.9.	
2.	Brief the other member(s) of the audit interview team on the purpose of each interview and the questions to be asked.	
3.	Conduct the interview at the employee's work location.	
4.	Ask the general and specific questions formulated for each employee to confirm or dismiss any suspected labor mischarging and to establish compliance with timekeeping controls.	
5.	Record the employee's complete responses and note any inconsistent comments or reactions. Ask appropriate follow-up questions to help clarify responses.	
6.	Obtain any available documentation to substantiate the employee's labor efforts on each project.	
7.	At the completion of the interviews, verify the work products observed in step 6 above by tracing them to contract requirements or have the contractor provide a description of how the interviewed employee's work corresponds to contract requirements.	
8.	If the interview provides indications that other persons within the department or work area may be involved in similar potential mischarging, conduct additional interviews before leaving the department/work area.	
9.	If appropriate, question management, accounting, or other personnel to further clarify or confirm the employee's statements.	
10.	Complete the employee interview working papers immediately after completing the interviews.	
11.	Determine any cost questioned related to labor mischarges.	
12.	If conditions which raise a reasonable suspicion of fraudulent or other suspected irregular activities are disclosed and cannot be resolved through audit, promptly report these as described in CAM 4-702.4.	
13.	Incorporate assist audits, update the FAO assist audit tracking system (CAM 6-805) and follow-up on any outstanding assist audits.	

A-1	Concluding Steps	WP Reference
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1. Hold a meeting with the audit team (whomever is appropriate for the level of audit risk or preliminary audit results). Discuss the results.	
2. Draft a MEMORANDUM FOR RECORD documenting the results for incorporation in the corresponding incurred cost audit. If the contractor does not agree with identified questioned cost(s), determine the need to draft a DCAA Form 1 (CAM 6-900). If the assignment is an assist audit, provide a copy of the memo to the requesting office.	
3. If material weaknesses or significant deficiencies in internal control are identified resulting in a significant deficiency in a business system, ensure that the findings have been fully developed (including which specific criteria (i.e., DFARS 252.242-7006(c)) the contractor is not compliant with) to determine if a significant deficiency truly exists. If so, open a Business Systems Deficiency assignment (Activity Code 11090) to report the deficiencies.	
4. Obtain supervisory review of working papers and draft memorandum prior to discussions with the contractor.	
5. Prior to the exit conference, communicate with the contracting office to: a. Discuss significant questioned costs or other significant issues, b. Discuss the results of the evaluation, and c. Invite the contracting officer to attend the exit conference.	
6. Conduct an exit conference in accordance with CAM 4-304. Provide a draft copy of the results to the contractor in accordance with CAM 10-208.5(d). Incorporate the contractor's reaction into the draft memorandum. If necessary, respond to contractor's comments. Finalize the memorandum.	
7. Update the contractor permanent file (MAAR 3) in accordance with CAM 4-405 Permanent File.	