

MASTER AUDIT PROGRAM

|   |  |
|---|--|
| Activity Code 10320   | MAAR 13 – Purchase Existence and Consumption |
| Version 3.0, 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   |  |
|   |  |
| <p>1. The purpose of this evaluation is to verify that purchased direct materials/services were, in fact received and ascertain that they were:</p> <ul style="list-style-type: none"> <li>• needed for the contract;</li> <li>• purchased in reasonable quantities;</li> <li>• purchased at a prudent price,</li> <li>• used on the contract, and</li> <li>• properly accounted for as to initial charge, transfer in or out, and residual value.</li> </ul>   |  |
| <p>2. This program should be used to verify purchased materials/services existence and consumption at major and non-major contractor locations to satisfy the mandatory annual audit requirement (MAAR) requiring verification that material was received and, if applicable, used on the contract. For mobile contractors, MAAR 13 must be performed for the current year during the first field visit to the contractor facility within the year. This will normally be accomplished during a price proposal audit, annual incurred cost audit, or within a specific material audit.</p>  |  |
| <p>3. "Purchased materials" are raw materials, purchased parts, subassemblies, etc., which are physically incorporated into an end product. Equipment purchased for the customer's use on a flow-through basis, such as computer hardware, or commercially available items for the contractor's use in performing the contract such as trucks and other equipment, are not deemed to be incorporated in the end product.</p>  |  |

MASTER AUDIT PROGRAM

|  |
|--|
| 4. “Purchased services” may include the performance of certain contract tasks by non-company personnel under the direction of the contractor or replacing entire functions within the contractor’s organization. Services provided include purchased direct labor personnel to meet temporary requirements, who are supervised by the contractor, or purchasing specific types of services, such as engineers, technical writers and craftsmen, on a regular basis to perform contract requirements.   |
| 5. If audit leads from prior evaluations suggest significant risk exists, the auditor should consider performing a MMAS compliance audit outside the normal cycle. The extent of audit effort in testing and verifying purchases existence and consumption is dependent on the perceived audit risk and is influenced by (1) the nature and significance of purchased material and services expenses, (2) prior audit experience with the contractor, (3) compliance of the contractor’s MMAS system, (4) the contractor’s mix of contracts and nature of contract provisions, and (5) the nature of the contractor’s organization and operations. |
| 6. If the purchased services costs include a significant amount of consultant service costs, the consultant costs should be audited using the Consultant Services audit program (under 10160 activity code in APPS) to evaluate those costs for allowability, allocability, and reasonableness in accordance with FAR 31.205-33.   |
| 7. This program contains audit steps that will help satisfy all or part of the following mandatory annual audit requirements (MAARs): <ul style="list-style-type: none"> <li>• MAAR 3 – Permanent Files</li> <li>• MAAR 13 – Purchases Existence and Consumption</li> </ul>  |
| <b>Other Planning Considerations</b>   |
| Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.   |
| <b>References</b>  |
| 1. CAM 6-300 Audit of Incurred Material Costs and Purchased Services   |
| 2. CAM 5-700 Audit of Material Management and Accounting Systems   |
| 3. DFARS 242.72, 244, 252.242-7004, and FAR 31.205-26  |
| 4. CAM 4-702.3 and Figure 4-7-3 Identify “Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas”  |

|  |                          |                     |
|--|--------------------------|---------------------|
| <b>B-1</b>   | <b>Preliminary Steps</b> |                     |
| <b>Version 3.0, dated July 2020</b>  |                          | <b>WP Reference</b> |
| 1. Review the current MMAS business system examination report and related section of the contractor's permanent file to obtain an understanding of the contractor's material accounting policies and procedures. |                          |                     |

MASTER AUDIT PROGRAM

|  |  |
|--|--|
| <p>2. 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 audit. Auditors should be able to obtain a major portion of this understanding during a walkthrough of the subject matter.</p>   |  |
| <p>3. Contact the contracting officer to ascertain any known concerns that impact the subject matter and adjust the audit scope and procedures</p>   |  |
| <p>accordingly. If the work is technical in nature, so that the auditor might be unable to determine whether the effort is being appropriately charged, consider requesting specialist assistance.</p>   |  |
| <p>4. Notify the appropriate contracting officer of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.</p>   |  |
| <p>5. Consider audit leads or key prior audit findings from a review of permanent files and prior audits.</p>  |  |
| <p>6. Determine whether there are any outstanding contract or CAS noncompliances affecting purchased materials/services (particularly CAS 402 and 411). If there are noncompliances, discuss with your supervisor how they will affect your audit scope.</p>   |  |
| <p>7. Review permanent file to determine if previous audits included findings and recommendations that relate to the subject matter . If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures:</p> <ul style="list-style-type: none"> <li>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 corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions. (GAGAS 7.13)</li> <li>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter.</li> </ul> |  |

MASTER AUDIT PROGRAM

|   |  |
|---|--|
| <p>8. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter . If there are no other studies or audits, document that information in the working papers and perform the procedures below.</p> <ul style="list-style-type: none"><li>a. Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.</li><li>b. If the review of the perm file or the contractor identifies relevant other audits or studies:<ul style="list-style-type: none"><li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li></ul></li></ul> |  |
| <ul style="list-style-type: none"><li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li><li>c. 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).</li><li>d. Determine if additional audit procedures are needed to respond to the identified risk.</li></ul>   |  |
| <p>9. Hold an entrance conference with the contractor to exchange preliminary information. If applicable, include a follow up with contractor management on:</p> <ul style="list-style-type: none"><li>• corrective actions that address previous DCAA audit findings and recommendations,</li><li>• other studies or audits that impact the subject matter.</li></ul>  |  |

MASTER AUDIT PROGRAM

|   |  |
|---|--|
| <p>10. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <ul style="list-style-type: none"><li>a. Their knowledge of any actual, suspected, or alleged fraud or noncompliance with laws and regulations affecting the period of time corresponding to the subject matter under audit. (AT-C 205.32)</li><li>b. Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject matter. (GAGAS 7.14)</li><li>c. The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13)</li></ul> <p><i>Note: Specifically document in the working papers; the inquiries and the corresponding responses as well as how the responses affect the performance of the engagement.</i></p> |  |
| <p>11. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>  |  |
| <p>12. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential material noncompliances, whether due to error or fraud, that could affect the subject matter. The discussion should include:</p>   |  |

MASTER AUDIT PROGRAM

|   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),</li> <li>• relevant aspects of the contractor and its environment,</li> <li>• risk of material noncompliance due to fraud (e.g., the extent of financial incentives, pressures to meet budget or contractual commitments, and opportunities to commit and conceal fraud). Consider the DoD IG website <a href="#">Fraud Detection Resources for Auditors</a> for common fraud risk factors. Copy link and paste into web browser,</li> <li>• other factors identified that increase the risk of material noncompliance with laws and regulations, and</li> <li>• the audit team’s understanding of relevant key internal controls. Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect the subject matter, and design audit procedures to respond to the increased risk of material noncompliance.</li> </ul> <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of misstatement and noncompliance due to error or fraud.</p> |  |
|---|--|

| <b>C-1   Verification of Purchases Existence and Consumption</b>  | <b>WP Reference</b> |
|---|---------------------|
| <b>Version 3.0, dated July 2020</b>   |                     |
| 1. Obtain the appropriate contractor accounting records that support the direct charges to contracts and provide the detail of materials and services purchased from an immediately prior accounting/reporting period (preceding day, week, or month) (CAM 6-302f & g).   |                     |
| 2. Select an appropriate sample from the contractor’s accounting records.   |                     |
| 3. Physically locate all sample material items and/or verify that the sample services have been received/performed. Determine if any assistance is required for any off-site locations. Request and track the assistance in accordance with CAM 6-805 and CAM Figure 6-8-1. (MAAR 12)   |                     |
| 4. If the selected parts are not located at the contractor’s facilities, the auditor needs to perform sufficient follow-up effort. Similarly, if selected purchased services are not being performed at the primary contractor's location, sufficient follow-up effort is required to verify the services are being performed. Follow-up effort could include: <ul style="list-style-type: none"> <li>a. Request confirmation of the existence of selected parts and/or the performance of purchased services from the cognizant offsite auditors.</li> <li>b. Review shipping and receiving documents.</li> <li>c. Make inquiries to contractor and/or Government personnel and confirm through other corroborating evidence.</li> </ul> |                     |

MASTER AUDIT PROGRAM

|   |  |
|---|--|
| 5. Obtain purchase orders for the sampled materials/services and trace to receiving reports.  |  |
| 6. Match receiving reports to vendor invoices.  |  |
| 7. Verify that the sampled items were:  |  |
| a. Needed for the contract, by comparing purchase requisitions or purchase orders to contract requirements and/or bill of materials.  |  |
| b. Purchased in reasonable quantity. If a MMAS business system examination is planned for the current fiscal year at this contractor, this step should not be included in the MAAR 13 review, since it is covered in greater detail in the MMAS business system examination.  |  |
| c. Purchased at a prudent price. If a MMAS business system examination is planned for the current fiscal year at this contractor, this step should not be included in the MAAR 13 review, since it is covered in greater detail in the MMAS business system examination. All significant transactions involving charging to Government contracts on a basis other than cost should be reviewed. |  |
| d. Used on the contract. When materials are requisitioned from stores, audit tests should include items charged to work orders or similar records.  |  |
| e. Properly accounted for as to initial charge, transfer in or out, and residual value in the accounting records. Miscellaneous costs associated with material purchases, such as transportation, charged directly or as items of indirect costs should be reviewed, if material or risk warrants.  |  |
| f. Considered properly for make or buy.   |  |
| 8. Perform a follow-up of any back-ordered materials. Verify that these materials were either received at a later date or deleted from applicable vendor invoices.  |  |

| <b>D-1</b>                          | <b>Development of Findings</b>  | <b>WP Reference</b> |
|-------------------------------------|---|---------------------|
| <b>Version 3.0, dated July 2020</b> |   |                     |
|                                     | 1. Document the sample audit results.   |                     |
|                                     | 2. Discuss audit results with the audit supervisor.   |                     |
|                                     | 3. If applicable, determine if material mischarges disclosed represent isolated instances or indicate more widespread conditions. |                     |
|                                     | 4. Determine any costs questioned related to material mischarges.   |                     |

MASTER AUDIT PROGRAM

|   |  |
|---|--|
| 5. If conditions which raise a reasonable suspicion of fraudulent or other suspected irregular activities are disclosed and cannot be resolved by audit, promptly report these as described in CAM 4-702.4. |  |
| 6. Incorporate any assist audits, and follow-up on any outstanding assist audits.   |  |

| A-1  | Concluding Steps | WP Reference |
|--|------------------|--------------|
| Version 3.0, dated July 2020   |                  |              |
| 1. Team Discussion. Hold a meeting with the audit team (whoever 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, draft a DCAA Form 1 in accordance with 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 officer to: <ul style="list-style-type: none"> <li>a. Discuss significant questioned costs or other significant issues,</li> <li>b. Discuss the results of the evaluation, and</li> <li>c. Invite the contracting officer to attend the exit conference</li> </ul>   |                  |              |
| 6. Conduct an exit conference in accordance with CAM 4-304. Provide a draft copy of the results to the contractor and incorporate the contractor's reaction into the draft memorandum in accordance with CAM 10-208.5(d). 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.  |                  |              |