

Master Document – Audit Program

Activity Code 28500	Single Process Initiative
Version 2.6, dated November 2017	
B-1	Planning Considerations
Audit Specific Independence Determination	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 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 work paper. For example, an FAO may add additional auditors (e.g., FAO technical specialist) 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	
The purpose of the evaluation is to:	
<ul style="list-style-type: none"> • provide procedures to evaluate whether the contractor's SPI cost benefit analysis provides a reasonable general dollar magnitude estimate of implementation costs and related savings, and • ensure that the impact of the approved SPI process change is reflected in the contractor's estimating system and forward pricing. 	
The evaluation will be an agreed-upon procedures engagement performed in accordance with applicable Government Auditing Standards and the AICPA Professional Standards.	
References	
1. CAM 1-804, “Management Councils, Single Process Initiative (SPI), and Cost Benefit Analysis”	
2. DCMA Guidebook, Single Process Initiative available at http://guidebook.dcmamil/20/guidebook_process.htm	
3. DCMA Single Process Initiative Concept Paper Guidebook available at	

Master Document – Audit Program

http://guidebook.dema.mil/onebook/20/SPIguidebook-preparing_concept_papers.htm
4. CAM 14-1000 Application of Agreed-Upon Procedures
5. CAM 10-1004 – Report Narrative (Agreed-Upon Procedures)

B-1	Preliminary Steps	WP Reference
Version 2.6, dated November 7		
1.	Review the open MRD’s for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for “MRDs, AGMs, & AMGMs”	
2.	Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.	
3.	Electronically transmit an acknowledgement/notification to the ACO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.	
4.	Assess the concept paper submitted by the contractor to gain an understanding of the proposed change.	
5.	If a Government technical review has not already been initiated, request technical support if needed. If the technical review has been requested, contact the Government technical representative to determine their areas of review and if their results will be available to incorporate into the report.	
6.	Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.	

Master Document – Audit Program

<p>7. Look at permanent files and prior evaluations to obtain background information.</p>	
<p>8. Hold an entrance conference.</p>	
<p>9. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>10. 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 noncompliances, due to error or fraud, that could materially 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 incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements), • other known risk factors • the audit team’s understanding of relevant internal controls. <p>Document fraud risk factor/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (http://gao.gov/products/GAO-12-331G) • AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf) • DoDIG’s Contract Audit Fraud Scenarios and Resources website (http://www.dodig.mil/Fraud-Resources/ContractAudit/) 	

Master Document – Audit Program

(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)	
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C-1	Detailed Procedures	WP Reference
	Version 2.6, dated November	
	1. Perform the steps agreed upon with the ACO (Step B-1), which should include the following (CAM 1-804.3) to determine if the contractor’s cost-benefit analysis is a reasonable general dollar magnitude estimate of implementation costs and related savings:	
	a. Determine if the cost-benefit analysis is adequate. Attributes of an adequate cost-benefit analysis are as follows:	
	(1) The cost-benefit analysis should include an analysis of: <ul style="list-style-type: none"> (a) Implementation costs, (b) Estimated savings on existing contracts, and (c) Estimated annual future savings to reflect in forward pricing. 	
	(2) The annual future savings should be forecasted for the period covered by the contractor's indirect expense rate forecast (usually five years).	
	(3) The cost-benefit analysis should identify both direct and indirect implementation costs and savings. Estimated implementation costs and savings should be broken down by the contractor's normal direct and indirect costs elements.	
	(4) The cost-benefit analysis should include the rationale to support significant estimates of implementation costs and savings.	
	(5) The cost-benefit analysis should identify recurring versus non-recurring implementation costs and savings.	
	(6) All applicable existing contracts should be considered in the analysis.	
	b. If essential cost-benefit analysis elements are missing, then conduct fact-finding with the contractor to obtain the information or the reasons why the information is not relevant. If the fact-finding does not result in obtaining the necessary information, request, in writing, the assistance of the ACO.	
	c. Evaluate the contractor's estimating rationale for the implementation costs and savings to determine its reasonableness.	

Master Document – Audit Program

d. Evaluate the supporting computations to determine their accuracy.	
2. Perform the following steps to ensure that the impact of the approved process change is reflected in the contractor's estimating system and forward pricing.	
a. Determine whether the contractor has adequate internal controls and estimating system procedures for incorporating the future savings associated with Management Council approved process changes into its forward pricing.	
b. If the contractor does not incorporate the impact of approved process changes into forward pricing and the impact is significant, consider issuing an estimating system deficiency flash report (see CAM 9-310).	
c. Prepare audit lead sheets to document the estimated forward pricing impact of the approved process change and any estimating system deficiencies for use in future forward pricing and estimating system audits.	
d. Perform other procedures as requested.	

A-1	Concluding Steps	WP Reference
	Version 2.6, dated November	
	1. Summarize results of applying agreed-upon procedures.	
	2. If the estimating system controls are inadequate to assure incorporation of the change, schedule an ICAPS examination of affected areas.	
	3. Auditors should document and communicate with the contracting officers upon the completion of our audit:	
	a. Brief the contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues, and/or	
	b. Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.	
	4. Discuss the results with your supervisor.	
	5. Conduct exit conference with contractor and document results.	
	6. Draft the report following the guidance in CAM 10-1000.	

Master Document – Audit Program