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Frequently Asked Questions: COVID-19

INTRODUCTION:

The COVID-19 national emergency is an unprecedented event that presents unique audit and cost allowability issues. The following FAQs do not address all topics or all provisions of the Families First Coronavirus Response Act (FFCRA) and Corona Virus Aid, Relief and Economic Security (CARES) Act. The answers in these FAQs are subject to revision based on Defense Pricing and Contracting (DPC) guidance. Please remember that only Contracting Officers make determinations about contract modifications, adjustments, and reimbursement under Section 3610 of the CARES Act. We will update this page as guidance is issued or changes are required.

FREQUENTLY ASKED QUESTIONS - GENERAL

1. Which entities are subject to the CARES Act?

Answer: The CARES Act applies to for-profit entities, small businesses, non-profit organizations as described in section 501(c)(3) of the Internal Revenue Code, Veterans organizations, and Tribal businesses described in the Small Business Act.

2. Will deferring current payroll taxes to 2021 and 2022 change the contractor's incurred payroll taxes for the current period?

Answer: No. CARES Act Section 2302 permits deferral of payroll taxes to 2021 and 2022. The deferred payroll tax is a cost of the current accounting period that should be accrued, billed, and properly accounted for by the contractor. The cost will be remitted to the IRS by the adjusted deadlines.

3. Can payment of payroll taxes be deferred if a contractor has a PPP loan forgiven under Section 1106?

Answer: No. An employer who has a PPP loan forgiven in accordance with Section 1106 of the CARES Act is not eligible to defer payment of payroll taxes under the provisions of Section 2302.

4. Which leave costs can a contractor have reimbursed through CARES Act Section 3610?

Answer: CARES Act Section 3610 permits Agencies to reimburse contractors for certain leave costs related to COVID-19. In general, leave costs granted by a contractor to employees who are unable to work on-site due to a COVID-related closure or other

event, and who also cannot telework, are reimbursable under this section at “contract billing rates.” The Director, Defense Pricing and Contracting, has provided detailed guidance in this area and continues to do so as the legislative and contracting environment evolve. See the following link for current DPC guidance and FAQs: <https://www.acq.osd.mil/dpap/pacc/cc/COVID-19.html>.

5. Can a contractor receive CARES Act Section 3610 cost reimbursements and still receive payroll tax credits and PPP loan forgiveness?

Answer: No. A contractor may not be reimbursed through Section 3610 for leave costs that was reimbursed to the contractor through another credit. The Director, Defense Pricing and Contracting, has provided detailed guidance in this area and continues to do so as the legislative and contracting environment evolve. See the following link for current DPC guidance and FAQs: <https://www.acq.osd.mil/dpap/pacc/cc/COVID-19.html>.

6. Is there additional guidance on COVID-19 that applies to Nonprofits and Institutes of Higher Education (IHE) and where can I find it?

Answer: Yes. The Office of Management and Budget (OMB) has issued specific guidance that impacts Nonprofits and IHEs. OMB issued Memorandum No. M-20-17 dated March 19, 2020, to provide administrative relief to an expanded scope of recipients affected by the COVID-19 crisis. This memorandum itemizes actions that federal awarding agencies are authorized to take and requires awarding agencies to maintain records on the level of particular exceptions provided to recipients. The OMB M-20-17 can be found at: <https://www.whitehouse.gov/wp-content/uploads/2020/03/M-20-17.pdf>.

In addition to this guidance, The Department of Defense issued a Frequently Asked Questions (FAQ) for DoD Research Proposers and Awardees Impacted by the Novel Coronavirus on the OMB memo, which provides additional clarification. The DoD FAQs can be found at: <https://basicresearch.defense.gov/COVID-19/Frequently-Asked-Questions/>

7. If we observe the contractor extracting a report from its system via cloud meeting (e.g., Webex), is this sufficient or does the audit team need to observe the contractor in person to avoid a scope limitation?

Answer: The observation performed via cloud meeting may be sufficient. If, in the audit team’s professional judgment, the quality of the audit evidence obtained through the cloud meeting was sufficient for their intended purpose, then a scope limitation is not required. If this is the case, the audit team will not need to perform the observation in person after we resume normal operations.

8. Is a scope limitation always required for audits performed during the COVID-19 national emergency?

Answer: No, not always. The COVID-19 scope limitation discussed in MRD 20-PAS-001(R), Audit Alert on Limited Contractor Access Due to COVID-19, is similar to other scope limitations. The audit team should evaluate the audit evidence it received during the audit and its impact on the audit opinion. If the audit team has obtained sufficient appropriate audit evidence by performing alternative procedures that mitigate the risk of material misstatement to an acceptable level, then a scope limitation should not be reported.

9. Is a CAS Disclosure Statement revision creating a COVID-19 Leave cost category considered a cost accounting practice change requiring a cost impact proposal?

Answer: No, the establishment of a new cost category is not a cost accounting practice change requiring a cost impact proposal.

10. When a report was issued with a COVID-19 scope limitation, how does the audit team determine whether to perform previously unperformed procedures?

Answer: Per MRD 20-PAS-001(R), the audit team should perform procedures they were previously unable to perform if COVID-19 caused the scope limitation (e.g., audit teams received electronic documents from the contractor via e-mail and were unable to validate to original records). The purpose of these post-audit procedures is to provide the audit team reasonable assurance that, had the procedures been performed during the audit, they would not have significantly impacted the audit opinion or reported findings. Therefore the audit team should use professional judgment and limit the extent of procedures (i.e. the number of test items selected) appropriately. If these limited procedures indicate that the audit report opinion may have been incorrect or findings may have been significantly underreported, the audit team may expand procedures as needed.

The FAO should issue a supplemental audit report if it will serve a useful purpose. Generally, supplemental reports do not serve a useful purpose when the subject matter of the report has already been negotiated or otherwise settled. When the audit team is uncertain if a supplemental report would serve a useful purpose, they should coordinate with the intended report user prior to drafting a supplemental report.

11. When a report was issued with a COVID-19 scope limitation, what is the expected timeframe to complete procedures the auditor was previously unable to complete?

Answer: The audit team should perform these procedures within approximately 90 days of resuming normal operations. The specific start date for the 90 days will depend on the nature of the disruption that prevented the application of the procedure. For example, if the audit team could not validate the source of original documents because the contractor temporarily closed a facility, the 90 days would generally

start when the contractor facility becomes available to the auditor and local DCAA management approves working at the contractor facility.

12. How does the audit team document supplemental procedures when the CaseWare package is already closed?

Answer: Follow the procedures in CAM 4-410 Supplemental Revisions to the Audit Working Papers after the Audit Report is issued.

FREQUENTLY ASKED QUESTIONS - INCURRED COST

Payroll Protection Program Loans, Loan Forgiveness, and Subsequent Credits to the Government

1. How should credits resulting from forgiven PPP loans be applied? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 2*)

Answer: The amount of a PPP loan that is forgiven will apply as a credit or cash refund under FAR 31.201-5. The credit should apply to contract costs in the same manner in which the PPP loan funds were originally spent by the contractor. For example, if a portion of the forgiven PPP loan was used to pay facility rent, the cost of facility rent should be credited. If that rent is part of an indirect cost pool, then the indirect cost pool would be reduced by the credit in the period in which the loan is forgiven. If a PPP loan was expended for direct contract cost and the contract can no longer be credited (i.e., it is complete), then the credit will be returned to the Government in a manner agreed to by the ACO.

Section 7A of the Small Business Act (formerly CARES Act, Section 1106) has strict documentation requirements and a company certification. This documentation should be available to the auditors.

2. Do the requirements of FAR 31.201-1, Composition of Total Cost, and FAR 31.201-5, Credits, apply to the provisions in the FFCRA and CARES Act? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 2*)

Answer: Yes. FAR 31.201-5, Credits, states “the applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.” FAR 31.201-1, Composition of Total Cost, states that total cost is the sum of the direct and indirect costs allocable to the contract less any allocable credits.

To the extent that PPP credits are allocable to costs allowed under a contract, the Government should receive a credit or a reduction in billing for any PPP loans or loan payments that are forgiven. Furthermore, any reimbursements, tax credits, etc.

from whatever source that contractors receive for any COVID-19 Paid Leave costs should be treated in a similar manner and disclosed to the government.

Additional Guidance:

Defense Pricing and Contracting (DPC) issued guidance, including:

- CARES Act Section 3610 Implementation (2020-O0013, Revision 4) – This class deviation provides guidance to contracting officers for implementing Section 3610 and provides deviation clause DFARS 231.205-79 CARES Act Section 3610 – Implementation.
- Section 3610 Reimbursement Requests (2020-O0021, Revision 3) – This class deviation provides guidance to contracting officers for reviewing and processing contractor requests for reimbursement under Section 3610, and provides three checklists the contracting officer may use to review the contractor’s request.
- Implementation Guidance for Section 3610 of the CARES Act, Frequently Asked Questions.
- Allowability of Contractor Costs – Donation of Unused Leave in Response to the COVID-19 National Emergency.

A complete listing of DPC guidance issued in response to COVID-19 can be found at <https://www.acq.osd.mil/dpap/pacc/cc/COVID-19.html>

3. If a contractor has cost-type contracts and its PPP loan is forgiven, will these contracts receive a credit due to the loan forgiveness? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 2*)

Answer: Maybe. The amount of a PPP loan that is forgiven will apply as a credit or cash refund under FAR 31.201-5. The credit should apply to contract costs in the same manner in which the PPP loan funds were originally spent by the contractor. For example, if a portion of the forgiven PPP loan was used to pay facility rent, the cost of facility rent should be credited. If that rent is part of an indirect cost pool, then the indirect cost pool would be reduced by the credit in the period in which the loan is forgiven.

However, PPP loans may be used for expenses that do not include flexibly-priced contracts. For example, a business may wish to use the PPP to pay its employees for work they would have performed for commercial customers and request support under other CARES Act or FFCRA provisions for time employees would have spent supporting federal customers. In this scenario, forgiven loan amounts used solely to pay employees working on commercial effort would not create a credit or refund for the Government.

4. How would a forgiven PPP loan be presented in the incurred cost proposal? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 2*)

Answer: First, be aware that the loan forgiveness may not have been granted in the same accounting period as the loan issuance. The contractor may claim allowable costs in the year incurred, and provide the related credits to the government when the loan is forgiven, even if the contractor is expecting the loan forgiveness.

The presentation of credits and refunds to the Government in the incurred cost proposal depends on each contractor's cost accounting structure and practices. PPP loan amounts that were expended on flexibly-priced Government contracts and were subsequently forgiven should be credited to those contracts in the same manner in which the original funds were expended. If a credit results due to a specific contract's ODC costs, then that credit should be accounted for as a credit to ODCs for that contract in the incurred cost proposal for the period in which the loan is forgiven.

5. How should a contractor present costs for which PPP loan forgiveness has been requested but not yet approved at the time the incurred cost proposal is due? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 2*)

Answer: Until forgiven, PPP loans are a liability of the contractor and, therefore, should be on the balance sheet. Costs paid for by these loans are normal contract costs.

6. Can a contractor bill the Government for costs that are being paid through a Paycheck Protection Program (PPP) loan?

Answer: Yes, but the Government will be entitled to a credit if the PPP loan is subsequently forgiven. The Paycheck Protection Program (PPP) permits businesses to borrow money to fund business operations. Those loans may be forgiven if the proceeds are used for covered expenses during the covered time period, as defined in the law. FAR 31.201-1, Composition of Total Cost, states that total cost is the sum of the direct and indirect costs allocable to the contract less any allocable credits. Accordingly, to the extent that PPP credits are allocable to costs allowed under a contract, the Government should receive a credit or a reduction in billing for any PPP loans or loan payments that are forgiven.

7. How would the computation of an indirect rate be adjusted if the funds of a forgiven PPP loan were used to pay indirect expenses?

Answer: When the funds from a PPP loan were originally used to pay indirect expenses, the amount of indirect pool costs allocable to a contract should be adjusted for any forgiven amount. To illustrate, if \$100,000 of a forgiven loan were used to pay the office rent included in the overhead pool, the pool should be adjusted for the same amount and the overhead indirect rate would be calculated as follows:

<u>Cost Element</u>	<u>Amount</u>
Rent	\$ 125,000
Other Overhead Costs	400,000
Subtotal	\$ 525,000
Less PPP Loan Forgiveness:	
Rent	(100,000)
Total Overhead Pool	\$ 425,000
Overhead Base	\$ 1,725,000
Overhead Rate*	25%

* Rounded

8. How should an indirect rate be applied if the funds of a forgiven PPP loan were used to pay direct contract costs?

Answer: Indirect costs should be allocated on the basis of a beneficial/causal relationship; which means that allocation bases should include all costs that contributed to generating the indirect pool. Therefore, forgiven PPP loans do not change how indirect rates are applied. In the case of forgiven PPP loans, costs paid with forgiven loan funds are still proper business expenses incurred that should receive their fair share of indirect allocations. To illustrate, if direct labor costs incurred totaled \$1,725,000 and PPP loan funds were used to pay \$250,000 of that labor, overhead costs should still be allocated to all direct labor costs because all the direct labor costs contributed to generating those overhead expenses. Using the overhead rate calculated in FAQ No. 17, the indirect allocation would be calculated as follows:

<u>Cost Element</u>	<u>Amount</u>
Direct Labor	\$ 1,475,000
PPP Loan Direct Labor	250,000
Total Contract Direct Labor	\$ 1,725,000
Overhead Rate	25%
Overhead Applied	\$ 431,250

9. What is the impact on total contract costs if the funds of a forgiven PPP loan were used to pay both, indirect expenses and direct contract costs?

Answer: Total contract costs should be adjusted for any direct or indirect costs allocable to the contract that were originally paid with funds from a forgiven PPP loan. To

illustrate, if the contractor used proceeds from a forgiven PPP loan to pay \$100,000 of office rent (see FAQ No. 17) and \$250,000 to pay direct labor on a contract (see FAQ No. 18), the calculation of total contract costs should be adjusted to reflect the forgiven amounts. To illustrate, total contract costs would be calculated as follows:

<u>Cost Element</u>	<u>Amount</u>
Direct Labor	\$ 1,475,000
PPP Loan Direct Labor	250,000
Other Direct Costs	50,000
Total Direct Costs	\$ 1,775,000
Overhead @ 25%	\$ 431,250
Total Direct Costs plus Overhead	\$ 2,206,250
G&A-TCI @ 10%	220,625
Subtotal	\$ 2,426,875
Less PPP Loan Forgiveness:	
Direct Labor	\$ (250,000)
Total Contract Costs	\$ 2,176,875

CARES Act Paid Leave

10. How should a contractor classify COVID-19 leave costs under Section 3610? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 2*)

Answer: The Department recommends that Section 3610 paid leave costs be charged to a newly created cost category, Other Direct Costs (ODC) COVID-19. Costs from ODC-COVID-19 may be allocated to the applicable contracts based on some reasonable, agreed upon allocation. In some situations, it may be more appropriate to charge these costs through indirect cost pools (overhead, G&A, etc.). In either case, the contracting officer and contractor should work together, as appropriate, to determine how the costs should be charged to the contracts.

11. Does the incurrence of COVID-19 leave costs trigger a cost accounting practice change? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 2*)

Answer: No. 48 CFR 9903.302-2(a) states that “the initial adoption of a cost accounting practice for the first time a cost is incurred...is not a change in cost accounting practice.” By creating a new category of costs in the Class Deviation, the Department has determined that cost accounting practices initiated to account for Section 3610 leave costs are not subject to the regulations for cost accounting practice changes set forth in FAR Part 30.603 and 30.604.

12. How did the contractor seek reimbursement for CARES Act Section 3610 paid leave costs?
(Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 2)

Answer: The process for requesting Section 3610 reimbursements for contracts with the Department of Defense is determined by agreement with the ACO and is governed by DPC Class Deviation 2020-O0021 Revision 3—Section 3610 Reimbursement Requests, dated March 23, 2021.

When auditing assertions that involve Section 3610 costs, auditors should become familiar with the agreement entered into between the contractor and Government and, if selected for testing, verify that the costs as presented in the incurred cost proposal are consistent with the methods of cost accumulation and the determinations of allowability in the agreement.

Auditors should note that CARES Act Sections 2101 through 2116 provide unemployment insurance articles. Auditors should ensure that 3610 requests for reimbursement do not include costs for which the employee received unemployment benefits. Under the CARES Act, employees do not have to be laid off or furloughed to collect unemployment benefits.

Provisional Billing Rates and Interim Billings

13. Should the contractor adjust its provisional billing rates if the contractor is deferring current payroll taxes to 2021 and 2022?

Answer: No. CARES Act Section 2302 permits deferral of payroll taxes to 2021 and 2022. The contractor's provisional billing rates were developed with payroll taxes included and the deferred payroll tax is still a cost of the current accounting period. The deferred taxes should be accrued, billed, and properly accounted for by the contractor. The cost will be remitted to the IRS by the adjusted deadlines.

FREQUENTLY ASKED QUESTIONS - FORWARD PRICING

1. Do I need to be aware of the provisions of the CARES Act impact when performing an audit of forward pricing? (Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3)

Answer: Yes. Most of the provisions of the CARES Act have a potential impact on forward pricing.

- The CARES Act extends to September 30, 2021. If a contractor's FY 2021 starts prior to September 30, 2021, its FY 2021 indirect rates could possibly be impacted by CARES Act.
- If costs incurred during calendar years 2020 or 2021 are used as part of the basis of estimate for the proposal, the auditor needs to understand how the costs

incurred are impacted by the CARES Act and what impact they have on the future estimates.

2. Should a contractor's estimates assume that the CARES Act relief provisions will be extended into calendar year 2021 and beyond when developing future estimates? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3*)

Answer: Recently, the American Rescue Plan Act of 2021 (Public Law 117 HR 1319) extended certain provisions of the CARES Act until September 30, 2021 such as Section 3610. If the contractor's estimating assumptions include extending relief provisions beyond the dates provided in the legislation, then these would represent contingencies under FAR 31.205-7. Contingencies may arise from presently known or unknown conditions that the effect of which cannot be measured so precisely as to provide equitable results to the contractor and to the Government. Contingencies should be excluded from cost estimates under the elements of cost, but should be disclosed separately (including the basis upon which the contingency is computed) to facilitate the negotiation of appropriate contractual coverage.

3. Are paid leave costs for COVID-19 an allowable future cost? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3*)

Answer: Possibly. The paid leave reimbursed for COVID-19 under Section 3610 is limited to the period of March 27, 2020, to September 30, 2021. Section 3610 does not prohibit the reimbursement of paid leave prior to or after that period. Therefore, the reimbursement of the paid leave costs (other than Section 3610 paid leave) would be allowable charges to a contract if they were allowable, allocable, and reasonable per the existing regulations, contract terms, and consistent with the contractor's accounting practices. If a contractor is proposing future paid leave for COVID-19, the auditor should obtain and review the contractor's policy and methodology used for paid leave related to COVID-19 and evaluate it against the applicable cost principles.

4. Should a contractor's forward pricing estimates consider the impact of COVID-19? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3*)

Answer: Yes. The circumstances and manner in which each contractor's estimates have been impacted by COVID-19 will vary. However, the contractor should consider how COVID-19 and changes in response to COVID-19 have impacted its future operations.

5. When certified cost or pricing data is required, what is a contractor required to disclose in its proposal related to the impact of COVID-19? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3*)

Answer: The proposal data should include cost or pricing data reflecting the prospective cost required to provide the product or service during the defined period of performance.

When certified cost or pricing data is submitted, the contractor is certifying that, to the best of its knowledge and belief, the cost or pricing data (as defined in FAR 2.101 and as required under FAR 15.403-4) the submissions are accurate, complete, and current as of a specific date.

The auditor must assess the disclosure requirements against the cost or pricing data definition. The key considerations include:

- Factual not judgmental;
- Reasonably expect to affect price negotiations (significantly);
- Verifiable – this would include the data forming the basis for judgment; and
- Contributes significantly to the soundness of estimates – does not have to form the basis of the estimate.

In assessing the proposal and expectation for disclosure, the auditor needs to be aware of the items in which a clear decision is made by someone in authority within the contractor organization to act, and the outcome is readily apparent. Generally, circumstances that may appear unclear or uncertain, but a decision has already been made by the contractor management, which have a significant potential impact on future costs, should be disclosed.

6. There is an existing Forward Pricing Rate Agreement (FPRA), Forward Pricing Rate Recommendation (FPRR), or audit report on forward pricing rates that were finalized prior to the COVID-19 pandemic. What should happen now? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3*)

Answer: The auditor should be aware of changes or decisions that have a potential impact on the contractor's indirect rates and assess the materiality of the impact on existing audit opinions expressed on the rates, FPRAs or FPRRs. Rates require updates to remain accurate, complete, and current as changes at the contractor occur. If the prior audit, FPRA, or FPRR does not consider the potential impact of COVID-19 and the impact is determined to be significant, action may be required to protect the Government's interest. The auditor should determine if the contractor plans to submit an updated proposal and notify the contracting officer of the contractor response. The auditor should work with the contracting officer and cost monitor to develop a plan to evaluate and update the forward pricing rates.

7. The DPC provided guidance on temporarily allowing the costs of donated leave. Should a contractor's estimates assume that the costs of donated leave would be allowable in calendar year 2021 and beyond when developing future estimates? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3*)

Answer: Currently, there is no enacted legislation that would extend the allowability of donated leave to beyond December 2020. If a contractor's estimating assumptions include extending this rule beyond the date provided in the DPC guidance, they would represent contingencies under FAR 31.205-7. Contingencies may arise from

presently known or unknown conditions, the effect of which cannot be measured so precisely as to provide equitable results to the contractor and to the Government. Contingencies should be excluded from cost estimates under the elements of cost, but should be disclosed separately (including the basis upon which the contingency is computed) to facilitate the negotiation of appropriate contractual coverage.

8. Are there other COVID-19 relief measures that I should be considering when performing forward pricing audits? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3*)

Answer: Yes. The Department of Defense's response to the COVID-19 pandemic includes using the provisions in the CARES Act, as well as using class deviations and existing FAR and DFARS flexibilities. One key flexibility impacting forward pricing is the ability to grant no cost extensions. COVID-19 caused closures or delays can result in the Government granting no cost extensions. This shift in contract performance can result in significant impacts in a contractor's indirect cost bases.

9. Is it permissible for a contractor to insert a bottom line COVID-19 percentage adjustment without support in its proposals? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3*)

Answer: No. COVID-19 does not alleviate the responsibility of a contractor to provide sufficient support for its estimates. In accordance with FAR Part 15, a contractor's proposal should be based on a well-supported basis of estimate (including COVID-19 costs set out as contingencies). To demonstrate reasonableness, the contractor must show how it computed the proposed COVID-19 costs while also providing the supporting data and appropriate explanations.

10. Are there any common risk factor trends auditors should be aware of when auditing forward pricing? (*Source: DCAA Revised MRD 20-PIC-0006(R), Enclosure 3*)

Answer: Yes. The pandemic has resulted in changes to the way companies are doing business and is influencing management decisions related to short/long term operations and policies and procedures. Below are a few items to consider when planning forward pricing audits.

- How has the pandemic impacted current operations - How the contractor's current operations were impacted by the pandemic can provide a lot of information to consider in audits. While some contractors may experience limited disruptions, others may have been significantly impacted. Increased telework, facility closures, layoffs, changes in historical spending trends, and contract delays all provide insight into possible impact to future operations. It is important to understand how historical data used as the basis for estimates was impacted and if those impacts will continue into the future.

- What changes to the contractor's policies and procedures occurred or are planned - Operating in a pandemic has changed how contractors function. This has resulted in contractors revising existing policies and procedures or adopting new policies and procedures. We are seeing increased use of telework, revisions to leave policies, and expansion of employee benefits or company reimbursed expenditures. The allowability of such costs would be determined using the existing applicable cost principles. The auditor should be aware of the contractor's new or pending policies and procedures to assess the impact on future estimates.
- Have production processes changed - The need for employee safeguards have resulted in the contractor looking at its production processes and implementing changes to protect employee health and wellbeing. These changes can influence the accuracy of using historical information and learning curves on future estimates.

11. Is the audit team responsible for considering the impact of COVID-19 on existing and future forward pricing engagements?

Answer: Yes. Auditing standards require auditors to consider the impact of known information up to the date of audit report issuance. The circumstances and manner in which each contractor and our audits have been impacted by COVID-19 will vary. Events such as layoffs, maximum telework, shut downs, slow-downs, new personal protective equipment, et cetera could impact forward pricing rates. Also impacted is to what degree historical data (prior to and during the COVID-19 national emergency) accurately represents future operations. Auditors should assess how the contractor's current and future operations have been impacted by COVID-19 and develop audit procedures to address identified risks.

If the contractor's proposal does not consider the potential impact of COVID-19 and the impact is significant enough that its disclosure is necessary to ensure the proposal is representative, the auditor should determine if the contractor plans to revise the proposal, notify the requestor, and take appropriate action.

12. Should forward pricing engagements always include a general scope limitation due to the potential impact of COVID-19 on the contractor's proposal?

Answer: No. The COVID-19 pandemic itself does not prevent auditors from complying with GAGAS on all audits. The manner in which a contractor's estimates are impacted as a result of COVID-19 and our ability to obtain sufficient appropriate evidence to form an audit opinion will vary. Therefore, a general scope limitation is not appropriate.

Consistent with existing guidance, the audit team should assess whether scope limitations exist in every audit. Reservations about the engagement (scope limitations) occur when the auditor is unable to obtain sufficient appropriate

evidence. Scope limitations can refer to any unresolved problem the auditor had in complying with applicable GAGAS requirements (e.g., the auditor was not able to perform all the procedures that he or she considers necessary in the circumstances) or, in an agreed-upon procedures engagement, the specific procedures agreed to by the parties.

- When sufficient appropriate evidence for procedures (including procedures designed as a result of COVID-19 related risks) can be performed, no scope limitation would be required.
- When the auditor cannot perform all the procedures that he or she considers necessary in the circumstances, a scope limitation should be reported.
- Any concerns the auditor believes the reader should know about that do not rise to the level of a scope limitation should be discussed with the contracting officer prior to the report issuance and can be reported in the “Report on Other Matters” section.

FREQUENTLY ASKED QUESTIONS - LIMITATIONS TO CONTRACTOR ACCESS

1. How should FAOs respond to audit requests if the contractor facility is closed or the contractor can only support the audit via e-mail and telephone? (*Source: DCAA MRD 20-PAS-001(R), Enclosure 2*)

Answer: The FAO should explain to the requestor the limitations on access to contractor personnel and/or records and the effect the limitations might have on the audit report. In some cases, the limited access to the contractor’s personnel and/or records may be so significant that the FAO may not be able to perform the audit. When declining an engagement, the FAO management should discuss the circumstances with the customer to ensure the customer understands why we are unable to perform the audit.

2. Is a scope limitation required if I only receive audit support via e-mail? (*Source: DCAA MRD 20-PAS-001(R), Enclosure 2*)

Answer: Generally, receiving electronic copies of contractor records via e-mail will result in a scope limitation. It is also important to validate significant downloads that may support the contractor assertion/proposal. Electronic copies of documents provided via e-mail is lower quality audit evidence than original documents. In addition, the auditor’s typical procedure of reviewing original documents has been limited by the circumstances, and reviewing electronic copies, alone, does not sufficiently mitigate the risk that the documents may have been altered.

3. Our FAO has performed testing to the contractor's original records in previous assignments, but we received only electronic copies via e-mail in the current assignment. Can we rely on the previous testing that was performed and avoid including a scope limitation in the report? (Source: DCAA MRD 20-PAS-001(R), Enclosure 2)

Answer: The auditor must obtain appropriate audit evidence to support the audit opinion.

Therefore, the testing of electronic copies received via e-mail to original documents in previous assignments generally would not replace the testing to original documents and validating significant downloads that should be performed in the current audit. When auditors are unable to validate the electronic copies received in the current audit, a scope limitation generally will be required because the quality of the audit evidence received would be inadequate to fully support the audit opinion. However, the auditor should consider the results of prior testing to identify whether or not there is significant risk of accepting electronic copies via e-mail. The auditor should assess the risk that the electronic records provided via e-mail in the current audit could have been altered since the time the prior testing to original documents was performed. This risk is similar to the risk that the contractor has altered their hardcopy documents from the time of creation to the time of audit. The auditor must consider fraud risk indicators and other known risk factors in determining whether there is a material chance that the electronic copies have been altered.

4. Can I perform a floorcheck interview via telephone or video teleconference? If so, will a scope limitation be required? (Source: DCAA MRD 20-PAS-001(R), Enclosure 2)

Answer: Auditors may perform the floorcheck interview via telephone or video teleconference. If these methods are used to perform the floorcheck, the auditor must consider the quality of the audit evidence obtained, and whether there is remaining risk of a material misstatement that has not been mitigated by the procedures performed. This determination is a matter of auditor judgment. For example, in a telephone interview it will likely not be possible to obtain appropriate evidence to determine what the employee was working on at the time of the interview. This could prevent the auditor from determining if the employee charged their time to the proper cost objective. However, this might be possible in a video teleconference. Another factor that the auditor should consider is that a telephone or video teleconference interview would generally need to be scheduled in advance, which would not allow for a spontaneous interview. FAO management should use their professional judgment in determining if certain audits, such as floorchecks or business systems, should be postponed until we return to normal operations.

5. Can I conduct a walkthrough via teleconference? (Source: DCAA MRD 20-PAS-001(R), Enclosure 2)

Answer: A walkthrough will be difficult to perform via teleconference because the contractor needs to demonstrate how selected portions of the subject matter are prepared. This usually involves explaining and visually demonstrating key processes, transactions, and supporting documentation. It would be challenging to

accomplish this via telephone and e-mail. However, a walkthrough conducted via video teleconference or Webex may be more feasible since it allows the auditor to visually observe the contractor's demonstrations. The audit team will likely need to coordinate with the contractor to determine how a walkthrough can be performed.

6. Can I conduct an entrance conference or exit conference over the telephone? (*Source: DCAA MRD 20-PAS-001(R), Enclosure 2*)

Answer: Yes. These conferences may be conducted via telephone. Conducting the entrance conference and/or exit conferences via telephone should not result in a reservation about the engagement. However, when normal operations resume, these meetings generally should be held in person.