



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PPS 730.4.A.9

July 30, 2013
13-PPS-015(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Alert on Access to Contractor Employees

DCAA considers access to contractor employees a routine and established audit procedure that is necessary to satisfy the Generally Accepted Government Auditing Standards (GAGAS). This guidance memorandum emphasizes the importance of inquiries and observations both during the planning phase of an audit, and during the performance of real-time labor evaluations.

Background

The Policy Directorate (Policy) received feedback from several Field Audit Offices (FAOs) that some contractors are challenging DCAA's right to interview and observe employees during the performance of our audits. Some contractors have argued that FAR Part 52.215-2 limits DCAA's access to records only, and do not believe that this includes access to their employees. DCAA does not agree with this interpretation of the FAR and considers timely access to contractor employees essential for its audit activities.

GAGAS Requirements for Inquiries and Observations during the Planning Stage of the Audit

The auditing standards require auditors to inquire with management and others within the contractor organization that, in the auditor's professional judgment, have information pertinent to successful planning of their audit¹. As an example, during the course of a proposal audit or business system audit walkthrough/demonstration, we would expect the individuals who actually perform the work to be the ones providing us with the demonstration and explaining how they perform their duties.

¹ GAGAS 5.06 specifically requires auditors to inquire with contractor personnel during the planning stage of the audit to identify previous audits, attestation engagements, and other studies that directly relate to the subject matter of the examination under audit, including inquiries on whether the contractor implemented the related recommendations. AT 601.40(c), require auditors to inquire with contractor personnel during the planning stage to obtain an understanding of the specified compliance requirements. Auditors obtain this knowledge through discussions/inquiries with appropriate individuals within the contractor organization (e.g., CFO, internal auditors, legal counsel, etc.). AT 601.45, require auditors to obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement. AT 601.46 states, an auditor generally obtains an understanding of the contractor relevant controls by performing inquiries of appropriate management, supervisory and staff personnel, inspecting contractor documents, and observing the contractor's activities and operations.

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Access to Employees during Real-Time Labor Evaluations

Auditors should obtain sufficient, appropriate evidence to provide a reasonable basis for the conclusions expressed in the report (GAGAS 2.09a). Performing inquiries and observations of contractor employees and their processes during the performance of mandatory annual audit requirement (MAAR) No. 6, provides auditors with the evidence needed to formulate an opinion, and is a fundamental part of the audit process. Interviews allow the auditor to evaluate compliance with labor charging policies and procedures and internal controls designed to ensure the reliability of the timekeeping records and the contractor's compliance with the terms and conditions of its Government contracts (i.e., FAR and CAS). Observations confirm that the employee is at work, performing in the correct job classification, and charging time to the appropriate cost objective.

Denial of Access to Employees

If during the course of any audit, the auditor considers access to employee observations or interviews to be essential to completing their audit, and the contractor fails to permit the auditor to interview those employees or observe them during the performance of their current duties, the auditor should follow the guidance in CAM Section 1-504.5, Resolution of Contractor Denials. If those efforts prove unsuccessful, the field audit office should continue to elevate the matter as an access to records issue, in accordance with DCAA Instruction 7640.17.

Contact Information

FAO personnel should direct questions to their regional points of contact, and regional personnel with questions should contact John Losh, Program Manager, Policy Publications and Systems Division at (614) 456-5032 or by e-mail DCAA-PPS@dcaa.mil.

/Signed/
Donald J. McKenzie
Assistant Director
Policy and Plans

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