



**DEFENSE CONTRACT AUDIT AGENCY**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAS 730.3.B.2.4

April 10, 2020  
20-PAS-001(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
CORPORATE AUDIT DIRECTORS, DCAA  
ASSISTANT DIRECTORS, HQ, DCAA

SUBJECT: Audit Alert on Limited Contractor Access Due to Coronavirus Disease (COVID-19)

This memorandum provides guidance in response to contractor closures and limited access to contractor records and personnel due to the Coronavirus Disease (COVID-19) national emergency.

**Guidance**

Access to contractor records and personnel may be limited as contractors close their facilities or the Agency and contractors maximize the use of telework in response to the COVID-19 national emergency.

If audit teams are unable to obtain sufficient appropriate evidence (e.g., audit teams receive electronic documents from the contractor via e-mail and are unable to validate to original records), the audit team should continue with the audit and validate the electronic documents to original records when the Agency and/or contractor resumes normal operations. When normal operations resume, the audit team should validate the electronic data previously accepted and then issue the audit report. Audit teams are reminded to appropriately document the audit evidence received, including the methods used to obtain the evidence.

For priority audits that must be issued before this selective testing to original records can take place (e.g., forward pricing assignments, incurred cost assignments subject to the National Defense Authorization Act one-year requirement), the audit team should assess the impact on the audit opinion and issue the audit report by the original agreed-to date. The lack of access to original documents, lack of access to contractor personnel, or the inability to validate the source of original documents (e.g., contractor records and contractor downloads) will generally result in a reservation about the engagement (i.e., scope limitation). In most cases, this scope limitation will result in a qualified opinion. However, the audit team should assess the evidence collected and use professional judgment in determining whether a scope limitation is necessary. See Enclosure 1 for Scope Limitation Examples.

When an audit report is issued with a COVID-19 scope limitation, the audit team should perform those procedures they were previously unable to perform (e.g., selective testing of the electronic documents to original records) within approximately 90 days of resuming normal operations. The FAO should issue a supplemental audit report if it will serve a useful purpose.

In some cases, it may be prudent to postpone audit effort on certain assignments rather than using alternative means, such as e-mail, to obtain audit evidence. Management should use their professional judgment in determining which audits should be postponed until we return to normal operations.

#### Contractor Communication

When a contractor closes its facility or instructs its employees to work from home, the audit team should discuss with the contractor how it plans to support the audit. The contractor and the audit team should come to an agreement on how the contractor will support the audit process remotely (e.g., how the audit team will meet with the contractor points-of-contact, how the contractor will provide supporting documentation, etc.). The audit team should inform the contractor that to the extent possible, other than how the contractor provides supporting information, the expectation is that the process will carry on in a normal fashion. The audit team should immediately inform the FAO Manager of instances where the contractor is unable or unwilling to support the audit.

#### Customer Coordination

It is imperative to keep in close communication with the customer. The FAO should explain our limited access to contractor records and/or personnel to ensure they understand the situation and that we are using alternative methods to gather sufficient appropriate evidence to the extent possible. The FAO should also explain the potential impact the limitations will have on the audit report and report opinion. Audit teams should inform customers that we are doing everything possible to continue to deliver a quality report by the agreed-to date. FAO Managers should immediately inform the customer of instances where the contractor is unable or unwilling to support the audit.

When the FAO issues a qualified audit report that includes a scope limitation due to COVID-19, the audit team should conduct a walk-through of the final report with the customer. The audit team should ensure the customer understands the audit procedures performed and that the customer can rely on the audit results. The audit team should also inform the customer of the plan for performing additional testing within approximately 90 days of resuming normal operations.

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### **Questions and Further Information**

A list of Frequently Asked Questions (FAQs) is included in Enclosure 2. FAO personnel with additional questions regarding this audit alert should contact their regional or CAD offices. Regional/CAD personnel with questions regarding this audit alert should contact Policy Auditing Standards Division at (703) 767-3238 or DCAA-PAS@dcaa.mil.

*/Signed/*

Martha E. McKune

Assistant Director, Policy and Plans

Enclosures:

- (1) Scope Limitation Examples
- (2) Frequently Asked Questions

DISTRIBUTION: E

## SCOPE LIMITATION EXAMPLES

*Note: Audit teams should tailor the scope limitation language to fit their specific circumstances.*

### Example 1: General

As discussed on [date], we were unable to complete necessary audit procedures on the proposed [\$XXX] of [cost elements/areas impacted]. On [date], the contractor's management instructed all contractor employees to work from home as a result of the Coronavirus Disease (COVID-19) national emergency. While we were able to obtain electronic copies of the documents via e-mail in support of the proposed [cost elements/areas impacted] amounts, we were unable to perform all procedures originally deemed necessary [e.g., confirm the [contractor report] was retrieved from the contractor's [system name], review original [types of documents], etc.]. Therefore, our audit results are qualified to the extent that additional costs may have been questioned had we performed all necessary procedures. See Page X, Note X for further discussion of our audit evaluation. We plan to perform the necessary procedures within 90 days of resuming to normal operations and supplement the audit report if it will serve a useful purpose.

### Example 2: Incurred Cost/MAAR 13

As discussed on [date], we were unable to complete necessary real-time audit procedures on [contractor name]'s proposed material cost. On [date], [contractor POC] advised our office the [contractor name] facility in [city, state] has been temporarily closed as a result of the Coronavirus Disease (COVID-19) national emergency. On [date], [contractor name]'s management instructed all contractor employees to work from home. As a result, we were unable to perform physical observations of the selected material items. While we were able to perform some alternate procedures on proposed material costs to verify the existence of the items [e.g., explain alternate procedures], we were unable to perform all procedures originally deemed necessary. Therefore, our audit results are qualified to the extent that additional costs may have been questioned had we performed the real-time testing procedures. See Page X, Note X for further discussion of our audit evaluation.

### Example 3: Incurred Cost/MAAR 6

As discussed on [date], we were unable to complete necessary real-time audit procedures on [contractor name]'s proposed labor cost during CFY 20XX. On [date], [contractor POC] advised us the [contractor name] facility in [city, state] has been temporarily closed as a result of the Coronavirus Disease (COVID-19) national emergency. On [date], [contractor name]'s management instructed all contractor employees to work from home. As a result, we were unable to perform the real-time verification of labor in CFY 20XX. While we were able to perform some alternate procedures on proposed labor amounts [e.g., explain alternate procedures], we were unable to perform all procedures originally deemed necessary. Therefore, our audit results are qualified to the extent that additional costs may have been questioned had we performed the real-time testing procedures. See Page X, Note X for further discussion of our audit evaluation.

## FREQUENTLY ASKED QUESTIONS

**Question 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?

**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.

**Question 2:** Is a scope limitation required if I only receive audit support via e-mail?

**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.

**Question 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?

**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.

**Question 4:** Can I perform a floorcheck interview via telephone or video teleconference? If so, will a scope limitation be required?

**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

## FREQUENTLY ASKED QUESTIONS

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.

**Question 5:** Can I conduct a walkthrough via teleconference?

**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.

**Question 6:** Can I conduct an entrance conference or exit conference over the telephone?

**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.