



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

IN REPLY REFER TO

PIC 730.5.35

August 9, 2023
23-PIC-008 (R)

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

SUBJECT: Revised Procedures for Real-Time Audits of Labor and Purchase Existence and Consumption

Policy is revising audit requirements and procedures related to real-time audits of labor and purchase existence and consumption, formerly known as Mandatory Annual Audit Requirements (MAARs) 6 and 13. A listing of Frequently Asked Questions is included as an Enclosure.

What you need to know

Labor and material are two of the most significant cost elements billed under government contracts. As such, one of the primary reasons we audit labor and material costs incurred is to determine the accuracy of the charges. The real-time verification of these costs as they are incurred provides valuable confirmation of the accuracy of the charges and can only be accomplished during the accounting period to which they apply.

Although our policies have not changed significantly since the introduction of MAARs 6 and 13 procedures decades ago, advances in technology and our audit environment have changed dramatically. Additionally, auditors gained best practices and efficiencies from lessons learned during the pandemic in performing these audits. As a result, in collaboration with Regional/CAD offices, we developed process improvements to implement the best practices, create more flexibilities, and align our audit resources to appropriate risk levels. The primary revisions include:

- Removed mandatory annual audit requirements from real-time labor audits and purchase existence and consumption audits.
- Established procedures for audit teams to determine when to perform real-time audits using a risk-based approach.
- Created flexibilities for the audit team to conduct real-time labor audits on a scheduled basis or unannounced basis based on specific risk considerations.
- Established best practices for use of alternate interview/floorcheck techniques, such as telephone or video conferencing to increase efficiencies during the audits, while maintaining a preference for conducting in-person interviews/floorchecks to the greatest extent possible.

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- Created flexibilities for the audit team to conduct real-time audits on an interval basis throughout the year or at a specific point in time based on specific risk considerations.
- Removed the mandatory requirement to report a scope limitation (i.e., qualified audit) for the nonperformance of real-time audits.
- Established alternative procedures when no real-time audits were accomplished.
- Increased emphasis for audit teams to leverage results from current accounting system and material management accounting system audits to increase audit efficiencies.
- Increased emphasis and revised procedures for testing contractor’s work at home programs (e.g., telework).

Although these revisions are aimed at creating audit efficiencies, it is imperative that we continue to perform real-time testing on high risks areas to establish auditors’ presence and maintain adequate oversight of contractor activities.

Questions and Further Information

We updated all relevant audit programs and applicable guidance. For further guidance and information, reference:

- CAM Chapter 6-105, 6-300, and 6-400.
- Non-Major Contractor Labor Floorchecks or Interviews Audit Program (Activity Code 10310).
- Major Contractors Labor Floorchecks or Interviews Audit Program (Activity Code 13500).
- Real-Time Testing of Purchase Existence and Consumption Audit Program (Activity Code 10320).
- Completing the Floorcheck Questionnaire Guidebook.

FAO personnel with questions regarding this memorandum should contact their Regional or CAD offices. Regional/CAD personnel with questions should contact Mr. Quan Chau, Program Manager at 571-448-4779 or PIC at DCAA-PIC@dcaa.mil.

/Signed/
Scott Perry
Assistant Director, Policy and Quality
Defense Contract Audit Agency

Enclosure:
Frequently Asked Questions

DISTRIBUTION: E

FREQUENTLY ASKED QUESTIONS

Question 1: We already started our real-time labor audit assignment; should we cancel/close the current assignment(s) if we determine the risk to be low?

Answer 1: Not necessarily. The policy revisions are effective as of the date of the MRD. Audit teams should continue with its planned efforts and use auditor judgment while considering the revised procedures to determine the need, timing and extent of real-time audit effort required to accomplish the audit objectives. CAM 6-305.3 and 6-402(c) provides auditors with a general risk-based framework to determine if real-time procedures are appropriate or necessary. Audit teams should obtain supervisor's approval before making a final decision.

Question 2: We recently completed our requirement planning for GFY 2024 and 2025, should we revise our plans based on the updated policy?

Answer 2: No. FAOs may change their GFY 2024 requirements plan based on local guidance if desired, but they are not required to do so. As usual, FAOs may revise GFY 2024 FY EAC hours and counts after October 1, 2023, to redirect audit effort to other activities as needed. At this time, FAOs should not need to change requirements plan inputs for GFY 2025, as Policy is working with OWD to provide further guidance for the GFY 2025-2027 requirement planning cycle in November 2023. Audit teams should discuss and coordinate with Regional/CAD offices if there is a need to terminate a planned assignment(s). See also "Answer 1" above.

Question 3: We found that the real-time audits serve a useful purpose to support our customer's concerns with related incurred cost assignments. Does the revised policy mean we have to justify and identify a specific risk to perform a real-time audit?

Answer 3: Yes, but the revised policy creates flexibilities for audit teams to decide the need, timing, and extent of the real-time audit effort based on risks. CAM 6-305.3 and 6-402(c) provides auditors a general risk-based framework to determine if real-time procedures are appropriate. Audit teams should use auditor judgement to determine what conditions, including customer concerns, impact the need to conduct real time audits.

Question 4: The contractor previously expressed they prefer us to perform our floorchecks and interviews by telephone and/or video calls. Does the revised policy take away our ability to perform in-person and unannounced interviews?

Answer 4: No, the revised policy provides audit teams with greater flexibilities to conduct real-time audits but does not eliminate the need to plan and perform adequate audit procedures, while using auditor judgment, to obtain sufficient and appropriate evidence. The decision to perform in-person floorchecks and interviews or use alternative interview procedures, such as, by telephone or by video conferencing, will be determined and designed by the audit team based on documented audit risk (reference CAM 6-404.9 and 6-405.3). Audit teams should communicate with the customer and contractor representatives the expectation that the audit may include unannounced in-person floorchecks/interviews.

ENCLOSURE