

Master Document – Audit Program

Activity Code	Post Year End Incurred Cost Audit
Version 1.3, dated August 2012	
B-1	Planning Considerations
Purpose and Scope	
<p>This standard audit program assists the auditor in planning and performing the incurred cost audit of a contractor to determine if costs charged to auditable Government contracts are allowable, allocable, and reasonable in accordance with contract terms and applicable Government acquisition regulations. This program is intended to be the controlling assignment for the entire incurred cost audit of a contractor fiscal year. It is expected that those portions of the audit which are covered in other work packages will be referenced at the appropriate place in this master assignment, including budgeted and actual hours (applicable to the larger contractor). Audit programs in other work packages (10160) should be cross-referenced back to the control assignment and audit step. This program is intended to provide a logical sequence to the audit fieldwork and to reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps are intended as general guidance and should be expanded or eliminated as necessary to fit the current audit.</p> <p>If the contractor has CAS-covered contracts, the auditor should test contractor compliance with the applicable CAS requirements as part of their transaction testing steps. The auditor should determine by checking the permanent files and prior audit working papers if significant costs related to CAS have been identified. Contractor compliance with certain CAS 412 and 413 provisions related to defined benefit pension plans must be tested annually, even if there are no pension costs incurred.</p> <p>This master program does not provide detailed audit steps for the testing of individual transactions. It is expected that transaction test programs will be developed locally to facilitate an effective audit based on the audit risk at the specific contractor location. Therefore, the program steps should be tailored, as appropriate. For audit areas with multiple sections, the auditor is permitted to remove the sections that are not relevant to the review based on the documented risk assessment. The audit program should reflect an understanding between the auditors and supervision as to the scope required.</p>	
Planning Considerations	
<p>Upon receipt, the contractor's incurred cost submission should have been evaluated for adequacy using the "Guide for Determining Adequacy of Contractor Incurred Cost Proposal" (located in Other Audit Guidance (OAG) under code 10100). The supervisor may authorize initiation of the preliminary audit steps prior to constructive receipt of all required data. Transaction testing ordinarily should not proceed until all required data have been made available. Follow guidance at CAM 6-706.2, Performance of MAARs Without a Certified Proposal, when starting audit procedures without an adequate proposal.</p>	

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References	
	FAR 42.7, DFARS 242.7
	FAR 31.2, DFARS 231.2
	CAM 1-504, Access to Contractor Records
	CAM 3-2S1 Special Considerations Audits of Selected Contract Types
	CAM 4-400, Audit working Papers
	CAM Chapter 6, Incurred Costs Audit Procedures
	CAM Chapter 7, Selected Areas of Cost
	CAM 10-200 and 10-500, Audit Reports on Annual Incurred Costs

B-1	Preliminary Steps	W/P Reference
Version 1.3, dated August 2012		
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 letter to the appropriate ACO/Buying Command notifying them of the commencement of the audit and expected completion date. The acknowledgement/notification letter should be issued within the timeframe and in accordance with the procedures in CAM 4-104.	
4.	Review the "Guide for Determining Adequacy of Contractor Incurred Cost Proposal" completed during the adequacy review of the incurred cost proposal and note any audit leads requiring further consideration.	
5.	Identify any non-DoD contracts subject to audit and obtain approval from the non-DoD customer to bill for our audit services. If approval	

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<p>is not received, adjust the audit scope and auditable dollars accordingly (CAM 15-102.2).</p>	
<p>6. Where the contractor is performing significant subcontract or intercompany effort, coordinate with the prime DCAA office on the timing of the audit and expected completion date.</p>	
<p>7. MAAR 19: Indirect Rate Computations. Verify the mathematical accuracy of the contractor's rate computations (CAM 6-611.1a).</p>	
<p>8. Verify the contractor's calculation of Government flexibly priced contract percentages (Government participation) of the indirect expense base(s) using the schedule of direct costs by contract and cost element from the contractor's proposal.</p>	
<p>9. Request the contracting officer or contractor to identify any auditable prime contracts or subcontracts (where the prime contractor worked as a subcontractor) from Schedule H that have been closed. Determine if it is appropriate to exclude the closed contract dollars from transaction testing. Adjust your audit scope and auditable dollars accordingly.</p>	
<p>10. MAAR 12: Assess the need for assists audits of flexibly priced subcontract and inter-divisional incurred costs effort based on a documented risk assessment and auditable dollars accordingly (CAM 6-800). Prepare assist audit requests, as necessary, and document on W/P B-3. Based on identified risk, tailor procedures at section E accordingly.</p>	
<p>11. Identify any voluntary deletions for consideration in planning transaction testing. Reconcile voluntary deleted items to the books and records and ensure all voluntary deleted account balances are identified and accounted for as unclaimed in the contractor's proposal.</p>	
<p>12. Coordinate with the Field Detachment auditor if the proposal includes classified work per DCAA Instruction No. 7643.1 and adjust your auditable dollars accordingly.</p>	
<p>13. Review contractor's executive compensation schedule (Supplement Sch. B) and compare the claimed compensation to prior years. Determine if there are significant changes from prior years and/ or if claimed executive compensation is over the regulatory compensation ceiling (CAM 6-414.8). Request an assist executive compensation review, as needed. Based on identified risk, tailor the audit procedures at section H accordingly.</p>	
<p>14. Coordinate with contractor and obtain a walk-through of the incurred cost proposal to gain an understanding of the basis of the proposal, the related supporting documentation, and the relevant policies/procedures and processes related to significant cost elements.</p>	
<p>15. Obtain and document an understanding the contractor's incurred cost proposal and its processes for developing the proposal using the framework on WP B-2. Obtain and document an understanding of the</p>	

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<p>underlying processes related to those specific incurred cost areas (e.g., the basis of the costs and from where the numbers/amounts are derived). A major portion of this understanding may be obtained during a walk-through of the contractor’s proposal.</p>	
<p>16. MAAR 3: Permanent Files. Review permanent files, CAS disclosure statement for the year under audit, multi-segment contractor responsibility matrix (if applicable), and prior related audits (e.g. business system deficiency reports, CAS audits) to identify potential audit leads or key prior audit findings to be considered in establishing the audit scope. Consider the impact of the results of MAAR 6 and 13 on the audit scope. Obtain current organization charts and compare to charts contained in the permanent file to identify any changes in organizational structure requiring follow-up and consideration in the audit scope.</p>	
<p>17. For contractors with defined benefit pension plans, review the Report on Contractor Pension and Post Retirement Benefit (PRB) Plans and other information required in DCAA Instruction 7600.3, Contractor Pension and PRB Reporting, to identify significant events that would require a review of Contractor Insurance and Pension Review (CIPR) based on the risk assessment. DCAA will perform independent CIPR in coordination with DCMA.</p>	
<p>18. Review applicable Board of Directors' minutes and audit committee minutes for the year(s) being audited (or corporate auditor’s review) for potential audit leads requiring follow-up and consideration in audit scope (CAM 3-104.16(c)).</p>	
<p>19. Review contractor internal audits and other management reviews for any issues requiring follow-up and consideration in audit scope.</p>	
<p>20. Excessive Pass Through Costs (FAR 52.215-23- previously DFARS 252.215-7003). (The DFARS clause became effective for all contracts awarded after 4/26/2007. The FAR clause became effective 10/14/2009.)</p> <ul style="list-style-type: none"> a. Request the contractor to identify and provide a listing of any (sub)contracts where the subcontract costs represent over 70 percent of the total contract costs. Verify the relevant clauses are included in the (sub)contracts (FAR 52.215-22 or 52.215-23). b. Request the contractor to identify if there have been any changes where subcontractor costs represents over 70 percent of the total costs of work since the initial contract award. If there have been subcontract changes, the auditor should request the contractor to provide evidence of written notification to the contracting officer that more than 70 percent of the total costs of the work to be performed by the 	

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<p>subcontractor.</p> <p>c. Based on the above, design the procedures in section E to ensure that neither a higher contractor nor a subcontractor receives pass through charges on work performed by a lower-tier subcontractor to which the higher-tier contractor adds no, or negligible, value (FAR 31.203(i)).</p>	
<p>21. Determine if the submission includes significant corporate or home office cost allocations or shared service cost allocations requiring assist audits. If not clearly identified in the contractor’s submission, request the contractor to identify its processes for receiving and charging these costs to final cost objectives. Based on the understanding of the processes, tailor the appropriate assist audit requests and detailed steps to ensure appropriate audit coverage. For corporate home office locations assess the need to request a Washington Office audit (CAM 6-806). Prepare assist audit requests, as necessary, and document on W/P B-3 and adjust your auditable dollars accordingly.</p>	
<p>22. MAAR 4: Tax Returns and Financial Statements. If the contractor is a corporation that prepares consolidated financial statements, these steps are usually largely performed by the corporate auditors. Auditors of contractor segments should coordinate with the corporate auditors to (1) pursue audit leads identified by the corporate auditors and (2) assess additional audit effort necessary at the segment level. All auditors should review the notes to the financial statements for possible audit leads requiring follow-up (CAM 3-104.16c).</p>	
<p>a. Review corporate financial statements, tax returns and SEC filings as appropriate. Follow-up on any significant audit issues and /or any related party transaction.</p>	
<p>b. Review Federal Income Tax Returns for compliance with FAR 31.205-41 to identify duplicate recovery of foreign income tax expenditures---first as a contract cost and second as a reduction to its federal income tax liability (CAM 7-1408(b) and (c)).</p>	
<p>c. Review a copy of external auditor's internal control letter or statement that the external auditor did not prepare an internal control letter. For publicly traded companies that file financial information with the SEC, review the “internal control report” prepared by management that accompanies the financial statements for any audit leads.</p>	
<p>23. MAAR 7: Changes in Charging Direct/Indirect costs. Based on the performance of the preliminary audit steps and other known information, evaluate any identified significant changes in practices for charging direct/indirect costs for consistency with generally accepted accounting principles, the applicable costs principles per</p>	

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<p>contracts, and any applicable CAS requirements. The purpose is to verify that changes in charging do not have the effect of improperly shifting costs among cost objectives, circumventing cost targets or ceilings of certain contracts, or other significant costs categories. (CAM 5-911.1, 6-404.6(b)(4), 6-407.2, 6-603.4 and 6-604.1).</p>	
<p>24. MAAR 15: Indirect Cost Comparison with Prior Years and Budgets.</p>	
<p>a. Compare base and pool totals to prior year and budgetary amounts. Determine if the indirect rate structure to accumulate actual costs is consistent with the CAS disclosure statement and indirect rate structure used to prepare forward pricing indirect rates for the same year (CAS 401/FAR 31.203).</p>	
<p>b. Compare final indirect accounts within pools to prior years and budget to identify changes in accounting practices, reclassification of costs, critical and sensitive accounts, new accounts (including voluntary deleted items), and areas with substantial increases or decreases in costs that require further audit analysis and/or explanation</p>	
<p>c. Obtain supporting account detail for sensitive accounts, new accounts, and accounts with large variances from performing steps a. and b. above. Tailor the detailed audit steps to address any risks identified.</p>	
<p>25. Contract Briefs. Ensure that all auditable contracts and subcontracts awarded during the year have been adequately briefed (CAM 3-200). If reliability of the contractor briefs has not been determined for the fiscal year under audit, test a sample of contractor briefs to original contract document or EDA for accuracy.</p> <p>Review contractor prepared briefs for any special contract terms or provisions that impact the allowability of costs incurred and should be considered in the audit scope. If the contractor has not briefed all applicable contracts or the contractor briefs are determined not to be reliable, the auditor should consider citing the contractor for a billing system deficiency. Any contracts that the contractor has not adequately briefed should be briefed as part of this audit.</p>	
<p>a. For contracts ready to close compare the period of performance per the contract brief or contract and latest modification to the period of performance claimed per the final voucher, and note any amounts claimed outside the contract period of performance</p>	
<p>b. For contract with Level of Effort (LOE) clause; determine if labor hours by category meet the required LOE per the contract and latest modifications. If the LOE requirements are not met, note that the fee requires adjustment.</p>	

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<p>c. Verify that the total amount claimed does not exceed the lesser of the total allowable costs (at the time CACWs is ready to be issue) and fee or funding limitation per the contract brief or contract and latest modification.</p>	
<p>26. Perform a profit margin test on T&M/Labor Hour contracts by comparing total contract billed amounts (e.g., from Schedule K of the contractor’s submission) to total actual contract costs reported (e.g., from Schedule H). Follow-up on any significant differences.</p>	
<p>27. Review the schedule of facilities. Identify any facilities that do not contain any employees. In addition, identify any facilities that are owned by a related company.</p>	
<p>28. Hold a planning meeting with the audit team (e.g., Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliance’s with applicable laws and regulations that could have a material effect on the contractor’s incurred cost proposal. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies, audit leads), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities that would present a heightened risk for fraud), other known risk factors, and the audit team’s understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See “Principal Sources of Fraud Indicators” below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to address the risk factors/indicators identified and to meet the audit objectives to provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a). This should be done at the planning stage and during the audit if risk indicators are disclosed. If no risk indicators are identified, document this also in W/P B (Planning).</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue throughout the audit.</p> <p><i>Principal Sources of Fraud Indicators:</i></p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: 	

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<p>http://www.dodig.mil/PUBS/igdh7600.doc</p> <ul style="list-style-type: none"> • CAM Figure 4-7-3. CAM 6-305(b), 6-404.6, and 4.702.3 <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
<p>29. Conduct an entrance conference. Confirm the team’s understanding of the contractor’s incurred cost proposal and supporting data. Discuss the availability of required data and personnel necessary to timely support the audit. If the contractor does not have original source documentation and we have not performed an assessment of the validity and reliability of the contractor’s scanning process, qualify the report accordingly.</p>	
<p>30. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>31. Finalize the auditable dollar value based on information gathered during the risk assessment.</p>	
<p>32. Review and discuss with your supervisor (or if appropriate, the audit team) the overall results of the risk assessment and the audit scope planned in response, including the detailed audit steps. Make any further adjustments to the audit program steps necessary to obtain sufficient evidence to provide a reasonable basis for the conclusion that will be expressed in the audit report.</p> <p>Obtain and document supervisory approval of the risk assessment and the planned scope of examination for each audit area documented in W/P B and -1 W/Ps</p>	

C-1	Reconciliations	W/P Reference
Version 1.3, dated August 2012		
1.	MAAR 2: Contract Cost Analysis and Reconciliation to Books. Verify the contractor’s reconciliation of costs claimed by major cost element under auditable Government contracts to the contractor's job cost subsidiary ledger and other accounting system records. Follow-up and obtain explanations on significant differences (CAM 6-610.1).	
2.	MAAR 14: Pools/Bases Reconciliation to books. Verify claimed pools and allocation bases to accounting records to determine that the claimed amounts reconcile to the contractor’s general ledger. Follow-up on significant differences.	

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3. Evaluate the contractor’s indirect costs allocation bases for equity and consistency with generally accepted accounting principles, FAR 31.203(c) and CAS 410 and 418.	
4. Determine if the same accounting period is used for accumulating costs in an indirect costs pool as for establishing its allocation base CAS 406/FAR 31.203(g).	
5. Schedule I Reconciliation.	
a. The auditor must verify that the contractor is billing pursuant to specific contract terms, funding or ceiling limitations. Reconcile Schedule I billed amounts to accounting records, and WAWF billing history to verify accuracy, and also determine that the contractor has reduced billed and claimed costs by: (i) costs in excess of contract ceiling; (ii) costs unallowable per contract terms; and (iii) costs incurred outside the period of performance.	
b. Evaluate materiality of any over billed amounts at both the total and individual contract level. If the over billed amounts are considered to be material, determine the cause of the overbilling and discuss with the supervisor the need to set up a billing system audit or special purpose audit of contractor overpayments to resolve the overbilling.	
6. Summarize the results and note whether any areas require further analysis during transaction testing.	

D-1	Direct Material	W/P Reference
Version 1.3, dated August 2012		
1.	MAAR 10: Adjusting Entries and Exception Reports (CAM 6-305.3a(1)). Request the contractor to provide adjusting journal entries and exception reports for direct materials. Evaluate and identify adjustments requiring further analysis and explanation.	
2.	Review the results of the DCMA purchasing system review (if applicable) for any risks identified to follow-up on in this audit.	
3.	MAAR 13: Purchases Existence and Consumption (CAM 6-305.3a(2)). Review and incorporate the results of MAAR 13.	
4.	Design and perform sufficient procedures based on risk required in this audit to opine on the allowability, allocability and reasonableness of direct material costs (CAM 6-302). Determine materials purchased were required for the contract, purchased in reasonable quantity and at prudent price, used on the contract, and properly accounted for as to	

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initial charge. (CAM 6-305.3). (The effort performed under the MAAR 13 is generally not sufficient to constitute sufficient evidence to opine the fiscal year incurred material costs.)	
5. Summarize the results.	

E-1	Subcontracts and Intercompany Orders	W/P Reference
Version 1.3, dated August 2012		
1.	Verify the contractor's schedule of auditable type subcontracts and intracompany orders under auditable type Government contracts and subcontracts to the contractor's books and records. If not already provided, obtain a listing of the intracompany orders showing the incurred costs by performing division.	
2.	Review the results of the DCMA purchasing system review (if applicable) for any risks identified to follow-up on in this audit (CAM 6-802.2).	
3.	Arrange for a meeting with the contractor to discuss their subcontract management process (FAR 42.202(e)(2)) and the extent of the contractor's evaluation of subcontract costs to ensure compliance with FAR 15 and FAR 31. Establish additional procedures based on risks disclosed (CAM 6-801, 6-802, and 6-803).	
4.	If assist audits were received and cover the time period under audit, compare the allowable costs in the assist audit report(s) to the amounts claimed. Significant differences should be further reviewed. Follow-up on requested assist audits that have not been received.	
5.	For the remaining subcontract and intercompany costs where assist audits are not being requested and performed, based on the risk assessment and the contractor's subcontract management process, select a sample of subcontracts/intracompany costs for testing. Verify the costs claimed are allowable, allocable, reasonable and in accordance with subcontract terms. At a minimum, <ul style="list-style-type: none"> a. Review the Intercompany Work Order (IWO) policies and determine whether claimed IWO costs include profit billed by the performing segment. b. Subcontracts/Purchases. Determine if (i) approvals were made at adequate levels; (ii) materials/services were needed for the contract; (iii) prices and units on the invoices match prices and units on the purchase orders; (iv) goods were received; (v) prime contractor paid the subcontractor prior to claiming the cost on the prime contract; and (vi) cost were properly recorded. 	

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<p>6. For cost type subcontracts, review the contractor’s procedures for ensuring subcontract costs are based on costs incurred and in accordance with the terms of the subcontract. Design audit procedures to test the contractor’s processes and verify that subcontracts costs are billed at cost, and within contract ceiling amounts.</p>	
<p>7. For T&M/FFP-LOE subcontracts, determine if the subcontract labor rates billed to the prime are consistent with the terms of the subcontract and applicable versions of the payment clause FAR 52.232.7. For DoD (noncommercial) T&M and LH contracts awarded on or after February 12, 2007, the subcontract and intercompany labor effort will be based on its own rates as prescribed in the contract, and not the rates of the prime contractor. For T&M/LH contracts awarded prior to February 12, 2007, the claimed subcontract and intercompany labor effort should be based on actual costs incurred unless otherwise specified in the contract (MRD 07-PPD-023(R) dated July 31, 2007). Determine that the subcontract hours are consistent with contractual terms and conditions of the prime contract and review the contractor’s procedures for ensuring the subcontractor employees meet the qualification requirements of the labor category in which they are billed.</p>	
<p>8. Excessive Pass through Charges. Using the information obtained in B, ensure the submission does not include unallowable excessive pass-through charges in accordance with FAR 52.215-22 and FAR 52.215-23.</p> <ul style="list-style-type: none"> a. If the contract contains FAR 52.215-23 Alternate I, the contracting officer made a determination at the time of award that the prospective contractor has demonstrated that its functions provide added value to the contracting effort and there are no excessive pass-through charges. Auditors should <ul style="list-style-type: none"> (1) Compare the contractor demonstrated value added functions with those disclosed to the contracting officer at the time of award to ensure the functions billed or claimed are consistent with the contracting officers determination; (2) Ensure the disclosed value-added functions were performed and are reasonable. b. Request the prime contractor and/or higher-tier subcontractor to demonstrate the subcontract management functions that added value. c. If the contract does not contain FAR Alternate I, the auditor perform procedures to determine if the contractor incurred excessive pass through charges as defined in FAR 52.215-23. <ul style="list-style-type: none"> (1) Request the contractor to identify the value added functions 	

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<p>it provided consistent with the definition in the contract clause.</p> <p>(2) Verify the disclosed functions were performed, are reasonable and represent value added effort.</p> <p>d. If the functions were not performed or add no or negligible value to the contract, then the indirect costs added by the prime contractor to the subcontracted work should be questioned as excessive pass through charges in accordance with FAR 31.203(i).</p>	
<p>9. Summarize the results.</p>	

F-1	Direct and Indirect Labor	W/P Reference
Version 1.3, dated August 2012		
1.	MAAR 6: Contractor Labor Audit (CAM 6-404). Review and incorporate the results of the MAAR 6 (labor floor check and interview) audit	
2.	Design and perform sufficient labor testing required based on risks to opine on the accuracy of contractor employee labor hour charges to contracts, indirect accounts, or other cost objective. Appropriately design the level of testing to address any significant deficiencies noted during performance of MAAR 6 and/or if a MAAR 6 has not been performed for the FY being audited. (Note: The effort performed under the MAAR 6 is generally not sufficient to constitute sufficient evidence to opine the fiscal year incurred labor costs.)	
3.	MAAR 8: Comparative Analysis-Sensitive Labor Account (CAM 6-404.6b(4)). Perform a comparative analysis of sensitive labor accounts (e.g., standby labor) to identify any sensitive labor changes that vary significantly from prior periods and/or budgetary estimates.	
4.	MAAR 9: Payroll/Labor Distribution Reconciliation and Testing (CAM 6-406.2a (6)). Reconcile total payroll dollar with totals of related labor cost in the general ledger and labor distribution records (Schedule L, reconciliation of total payroll per IRS form 941 to total labor cost distribution). The auditor should have the contractor reconcile total salaries and wages to payroll tax returns (IRS Form 941) The MAAR 9 should be perform at home office and divisional level, (if applicable).	
5.	MAAR 10: Adjusting Entries and Exception Reports (CAM 6-404.6b(6)). Evaluate adjusting journal entries and exception reports for direct and indirect labor. Identify adjustments (e.g., unusual labor transfers) requiring further examination and explanation. In addition,	

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<p>select a sample of remaining labor adjusting entries from labor distribution for testing.</p>	
<p>6. For T&M or Labor Hour contracts, based on the risk assessment, select a sample of contracts for testing of details:</p> <ul style="list-style-type: none"> a. Determine if the claimed and billed hours reconcile to the contractor’s books and record (e.g. timesheets, labor distributions reports, and job cost summary reports). b. Review and determine claimed labor hours, rates, and employee qualifications (education and experience) comply with contract provisions (FAR 16.601). 	
<p>7. Summarize the results.</p>	

G-1	Other Direct Costs (ODC)	W/P Reference
Version 1.3, dated August 2012		
<p>1. MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for other direct costs. Identify adjustments requiring further analysis and explanation.</p>		
<p>2. Based on the results of the risk assessment, select an adequate sample of ODC transactions for testing (analytical and substantive). For selected transactions, evaluate source documents for completeness and accuracy, and determine the appropriateness of the charge with respect to term of the contract and FAR/CAS.</p>		
<p>3. Summarize the results.</p>		

H-1	Indirect Expenses and Cost of Money	W/P Reference
Version 1.3, dated August 2012		
<p>1. MAAR 5: General Ledger, Trial Balance, Income and/or Credit Adjustments (CAM 6-608.2d(5)). Document your understanding of the types of income and credits occurring at this contractor, and your understanding of the contractors methods for accounting for income and credits. Analyze the contractor’s general ledger, trial balance and entries to profit accounts and other income accounts to identify any credits or income that have not been accounted for which the government may be entitled to a credit. Examples include purchase discounts, scrap sales, rental income, excessive company reserves, insurance and state tax rebates and refunds, etc. Identify adjustments requiring follow-up.</p>		

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<p>2. MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for indirect expenses. Identify adjustments requiring further analysis and explanation. Select a sample of transaction for testing.</p>	
<p>3. MAAR 16: Indirect Account Analysis (CAM 6-608.2c). Perform transaction testing on accounts selected through MAAR 15 or other procedures, and based on the risk assessment, such as critical or sensitive accounts, new accounts, and accounts with large variances to obtain sufficient evidence to support an opinion on allowability, allocability, and reasonableness of these costs.</p>	
<p>4. MAAR 18. Indirect Allocation Bases. Evaluate the contractor’s indirect cost allocation base(s) and verify that the base(s) properly: (i) reflect(s) the appropriate cost accounting period; and (ii) allocates indirect cost to final cost objectives commensurate with the benefits received (CAM 6-606 and 6-610.2).</p>	
<p>5. Cost of Money. If the submission includes cost of money rates, verify the amounts on the CASB-CMF form, Facilities Capital Cost of Money Factors Computation, to source documents and verify the accuracy of the contractor’s calculations.</p> <ul style="list-style-type: none"> a. Ensure that claimed cost of money is in compliance with the provisions of CAS 414 and FAR 31.205-10. b. Ensure the contractor use the same base used to allocate the other expenses included in the cost pool. c. Ensure the contractor used applicable cost of money rate for that FY (CAM 8-414.2). 	
<p>6. Review the contractor’s IRS Form 941s (Employer’s Quarterly Federal Tax Return) for the year(s) under audit to obtain employee taxes withheld (liability) and employer matching payroll taxes (expenses) to determine total payroll taxes owed were paid timely.</p>	
<p>7. Executive Compensation:</p> <ul style="list-style-type: none"> a. If not performed under the labor section, obtain and document an understanding of the contractor’s process for ensuring the reasonableness of executive compensation. Based on this understanding and identified risks, design and perform steps to evaluate the reasonableness of the contractor’s executive compensation costs (CAM 6-414). Trace the executive compensation costs to the appropriate G&A and overhead accounts to ensure that all the executive compensation is being evaluated for reasonableness. b. Perform sufficient steps to verify that all allocable direct and indirect executive compensation in excess of the statutory compensation ceilings (See CAM 6-414) has either been 	

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<p>appropriately: (i) excluded from the contractor’s incurred cost submission, or (ii) identified as expressly unallowable costs and questioned in the audit report.</p> <p>c. Perform additional steps as necessary to verify that any directly associated compensation costs have been excluded from the contractor's incurred cost submission, or identified as expressly unallowable costs and questioned in the audit report in accordance with FAR 31.205-6(a).</p>	
<p>8. Indirect Cost Limitation for Basic Research Awards: Review the contractor briefs to ascertain the contractor’s “basic research” awards. Request the contractor to demonstrate their procedures for compliance with the 35 percent indirect costs limitation (MRD 09-PPD-024, dated 12/10/2009). The indirect costs limitation applies to all awards (i.e., contracts, grant or cooperative agreement) made with FY 2008 or FY 2009 appropriated funds for basic research and was extended to include FY 2010 appropriated funds.</p>	
<p>9. Pension Costs. Pension costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Therefore, divisional auditors may need to request an assist audit from the FAO cognizant of the corporate home office. If the costs are auditable at your location develop an audit program considering the FAR and CAS requirements. Identify any terminated pension plan costs or credits on the books for this contractor or for acquired or absorbed divisions or other division employees for further review.</p>	
<p>If no pension costs are incurred for the year, the following steps are mandatory for defined benefit pension plans:</p>	
<p>a. Evaluate the Trustee report and obtain an explanation for any significant withdrawals of pension assets. Perform additional audit steps as needed to ensure that Government contributed pension assets are protected.</p>	
<p>b. If the contractor’s practice is to calculate pension costs by segment:</p>	
<p>(1) Verify that the records required by CAS 413.50(c)(7) are properly maintained and that investment earnings of the trust are allocated in accordance with CAS 413.50(c)(7).</p>	
<p>(2) Determine if the transfer of active employees among segments distorts the ratio of assets to the actuarial accrued liabilities.</p>	
<p>(3) If so, verify that assets equal to the employees’ actuarial accrued liabilities (determined using the accrued benefit</p>	

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cost method) were transferred in accordance with CAS 413.50(c)(8). Consider requesting the assistance of the DCMA pension specialist through the ACO (CAM 5-1303.1c).	
10. Evaluate voluntary deletions and questioned costs for directly associated costs that should also be excluded/questioned (FAR 31.201-6(a)).	
11. Health Care Costs. As part of the review of health care costs, verify the contractor included only health insurance premiums and claims for “eligible dependents”. Request the contractor to demonstrate its procedures for ensuring only costs related to eligible dependents have been included in the claimed costs. Based on the understanding of the contractor’s processes and overall risk, design procedures to test claimed costs are related to only eligible dependents.	
12. IR&D/B&P. Obtain Costs by Element for each IR&D/B&P project. For significant IR&D projects review the project descriptions, work documents, invention reports to determine if they meet the FAR 31.205-18 and CAS 420 definitions Applied Research, Basic Research, or Development.	
13. Summarize the results.	

A-1	Concluding Steps	W/P Reference
Version 1.3, dated August 2012		
1.	Summarize and document the audit results for supervisory review.	
2.	Obtain supervisory review of the working papers, and draft audit results section of the audit report before discussions with the contractor	
3.	Conduct an exit conference and provide the audit result to the contractor. The contractor’s reaction should be obtained for inclusion in the final draft audit report	
4.	If any contracts contain or should contain the penalty clause, and expressly unallowable costs were included in the certified proposal, prepare a schedule of questioned costs by penalty class within indirect cost pools and percent of the base subject to penalty (CAM 6-609.1, 6-609.3, and 10-504.5e(6)).	
5.	If the contractor does not agree with the questioned cost(s) draft a DCAA Form 1 in accordance with CAM 6-900.	
6.	Prepare the draft rate agreement letter and audit report in accordance with CAM 10-500 and obtain supervisory review.	

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7. Prepare any required audit lead sheets and submit to supervisor for approval. Update permanent files.	
8. Update the MAARs Control Log (see M-MAARs.doc in Other Audit Guidance). Include a completed copy of the control log in this working paper package.	
9. Prepare and verify accuracy of dollars examined, questioned costs, and sustained questioned costs amounts for DMIS reporting.	