

**Master Document – Audit Program**

<b>Activity Code 10160</b>		<b>Consulting Services</b>
<b>Version 5.5, dated June 2012</b>		
<b>B-1</b>	<b>Planning Considerations</b>	
<b>Purpose and Scope</b>		
<p>1. The primary objectives of this audit are to determine the nature, extent, allowability, allocability and reasonableness of consultant costs charged to Government contracts. Consultants are defined in FAR 31.205-33 as "persons who are members of a particular profession or possess a special skill and who are not officers or employees of the contractor." The audit may include consultant costs charged direct to contracts, to IRD/BP, and those charged through indirect pools such as overhead and general and administrative expenses.</p>		
<p>2. This audit program module would be performed under assignment code 10160.</p>		
<b>References</b>		
<p>1. FAR 31.205-33, "Professional and Consultant Service Costs."</p>		
<p>2. FAR 31.201-3, "Determining Reasonableness."</p>		
<p>3. FAR 31.201-4, "Determining Allocability."</p>		
<p>4. CAM 7-2105, "Professional and Consultant Costs."</p>		
<p>5. CAM 7-2116, "Lobbying Costs."</p>		
<p>6. CAM 4-702.3 and Figure 4-7-3 identify "Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas."</p>		

<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
<b>Version 5.5, dated June 2012</b>		
<b>1. Research and Planning</b>		
<p>a. 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, &amp; AMGMs"</p>		

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<p>b. 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.</p>	
<p>c. Electronically transmit an acknowledgement/notification to the ACO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
<p>d. Review relevant Internal Control Audit Planning Summaries (General Accounting, General IT Controls, Indirect/Other Direct Cost Systems, Purchasing System, etc.) to obtain an understanding of the contractor's system and the control risk associated with the selection, acquisition, and cost charging practices related to consultant services.</p>	
<p>(1) The auditor's understanding should include knowledge of the contractor's procurement and subcontracting procedures including methods of ensuring competition. The auditor should also understand the contractor's procedures used to identify the need for consultants, the selection process, and the manner of accounting for the cost.</p>	
<p>(2) Increased transaction testing should be performed in those areas where internal control weaknesses exist. Conversely, transaction testing should be reduced in those areas where internal controls are adequate.</p>	
<p>(3) The areas listed below should be considered when obtaining an understanding of and evaluating the contractor's internal controls for consultant costs. If this information is not available in the permanent files as a result of prior audits of contractor internal control systems, prepare audit steps to understand and evaluate the contractor's controls in these areas during this audit.</p>	
<p>(a) Are consultant's hours controlled in the same manner as the contractor's professional labor?</p>	
<p>(b) Are time cards required?</p>	

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(c) Does the purchasing department maintain specifications for purchased services?	
(d) Is the organization receiving the service independent of that purchasing the service?	
(e) Does the contractor have a written policy explaining prohibited activities by purchasing agents?	
(f) Do procedures require complete history files for purchased services?	
(g) Do buyers document the purchase order files to explain price variances?	
(h) Are purchase orders specific and complete as to work scope, specifications, performance dates, and clauses of any type required by the contract?	
(i) Does the contractor have an established policy regarding the types of information and provisions to be included in agreements with outside legal firms?	
(j) Do procedures require competitive acquisitions of consultant services?	
(k) Does the contractor have a designated reviewer(s) of bills submitted by outside legal counsel and procedures to be followed when the designated reviewer believes the outside legal bills contain duplicative of excessive charges?	
(l) Does the contractor use consultants to engage in unallowable lobbying activity as described in CAM 7-2116? If so, does the contractor (1) identify and exclude such costs from billings, claims and proposals applicable to Government contracts, and (2) disclose such activity in the prescribed manner (See CAM 7-2116.3)?	
e. Review the permanent files, prior working papers, audit programs, and most recent Washington office audits for information on the use of specific consultants in the past, and for significant deficiencies or weaknesses in management controls discovered during other audits. (Washington office audits, if performed by a Washington area FAO, should be filed in the audit working papers along with other assist audits.)	
<b>2. Entrance Conference and Preparation</b>	
a. Conduct an entrance conference (CAM 4-302) and cover the	

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following matters:	
(1) Discuss the FAR definition of consultant costs and the contractor's definition, and resolve any differences.	
(2) Discuss and determine the best method of identifying the nature and extent (amount) of consultant costs (as defined by FAR) from the contractor's records. Include a discussion of potential audit validation techniques such as review of vendor listings, IRS forms, etc., to provide additional assurance that all such costs have been fully identified and accounted for.	
(3) Request that the contractor provide a listing of all consultants and costs charged directly or indirectly to Government contracts (including FMS contracts but excluding those contracts not under our audit cognizance) during the year/s audited. Request that the listing include costs for consultants voluntarily deleted or otherwise not claimed. Also, the contractor should furnish a summary of voluntarily deleted or otherwise not claimed costs. (Do not delay obtaining and auditing claimed costs if there are difficulties in obtaining data on voluntarily deleted or otherwise not claimed cost. Obtain any denials of access in writing and forward immediately to your RAM.) For each item listed, claimed or not claimed, obtain the following:	
<ul style="list-style-type: none"> <li>• Name of individual or firm</li> </ul>	
<ul style="list-style-type: none"> <li>• Cost objective charged, i.e. direct to flexibly priced contracts, direct to FFP contracts, direct to IRD/BP projects, indirect, etc.</li> </ul>	
<ul style="list-style-type: none"> <li>• Amount paid</li> </ul>	
<ul style="list-style-type: none"> <li>• Nature of services performed (<i>See step 2 of the Audit of Consultant Costs Section</i> for categories.)</li> </ul>	
<ul style="list-style-type: none"> <li>• Amount claimed</li> </ul>	
NOTE: This audit should include a review of documentation related to costs which are not claimed, in order to validate procedures for excluding directly associated costs and for verifying base/pool relationships.	
b. Advise the contractor that we will require access to the following types of supporting documentation for those consultants selected for in-depth review.	
(1) Consultant agreements	
(2) Consultant's work products (reports, briefings, etc.) and billings.	

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(3) Correspondence between consultants and the contractor.	
(4) Travel vouchers and trip reports.	
(5) Internal audit reports providing coverage in this area. (If internal audit coverage can be relied on, duplication of such audit effort should be avoided.)	
(6) Any other documents, which provide evidence of the nature and scope of the services furnished and the reasonableness of the amounts, charged.	
(7) Advise the contractor that we will require access to vendor listings and IRS Forms 1099-Misc.	
(8) Request any data, reports, or listings supplied to CPAs, the SEC, or others of sensitive consultant costs. (MAAR 4)	
c. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
<p>d. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), 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 meet the audit objectives and 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)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p>Principle Sources of Fraud Indicators:</p>	

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<ul style="list-style-type: none"> <li>• Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: <a href="http://www.dodig.mil/PUBS/igdh7600.doc">http://www.dodig.mil/PUBS/igdh7600.doc</a>.</li> <li>• CAM Figure 4-7-3.</li> </ul> <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
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<b>C-1</b>	<b>Evaluation of Consultant Costs</b>	<b>WP Reference</b>
	<b>Version 5.5, dated June 2012</b>	
	1. Obtain vendor listing and 1099-Misc. (block 7) forms and review for possible consultants not included on the listing provided by the contractor. The ACO may, as a result of inquiries received, be aware of other consultants. Also, the contractor's procedures may provide for the maintenance of files which contain documents - consultant agreements, conflict of interest forms, or biographies, etc. - which will serve to identify the universe of consultants separately. Make certain you request such files from the contractor. Document any contractor representation that such files do not exist or that the contractor is unwilling to permit us access.	
	2. Consultants' agreements, work products, and related records should be analyzed as follows for all sensitive consultants. Prior audit experience and professional judgment must be exercised in determining which consultants are sensitive. Overall Agency audit experience in this area has resulted in the following ranking of consultant services (shown in decreasing order of sensitivity): (i) lobbyists; (ii) sales/marketing; (iii) management services (excluding CPA firms); (iv) legal; (v) technical/engineering; (vi) accounting, CPA firms, actuary, and insurance; and (vii) other. Other consultants will be sampled to determine the allowability of costs and the accuracy of the contractor's listing. (MAAR 16)	
	a. Determine whether the activity engaged in by the consultant is strictly unallowable in accordance with applicable DAR/FAR provisions. (FAR 31.205-33, 31.201-3, 31.205-1, 31.205-12, 31.205-14, 31.205-20, 31-205-22, 31.205-27, 31.205-38, 31.205-47, and 3.8).	
	b. If the review of agreements and work products fails to establish a logical link to activity that benefits either the business as a whole or Government contracts or programs in particular, then the cost should be questioned. Once a consultant is questioned, the audit effort should be extended to cover all transactions with the	

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consultant organization being examined.	
c. Travel and trip reports submitted by consultants should be examined to determine if the expenses are unallowable, unreasonable, or insufficiently specific to establish a link to activity that benefits the business or Government contracts. If such circumstances exist, then the cost should be questioned.	
3. If the consulting agreement, billings, work products, or other evidential matter do not provide sufficient evidence to support allowability, then the cost should be questioned.	
4. If the nature of the consulting service appears to be allowable, work products should be reviewed for the reasonableness of the fees charged.	
5. To the extent necessary, request technical assistance from the administrative contracting officer.	
6. The contractor should be advised in writing and on a real time basis of all items questioned and requested to provide a written response.	
7. Selected consultant contracts should be traced through the purchasing system to determine that the control procedures have been followed. Assess the adequacy of the overall system of internal controls and develop recommendations for needed improvements.	
8. The Auditor should develop any additional detailed audit fieldwork steps, as appropriate, to fully develop audit findings or leads noted above. These steps should be descriptive of work performed.	
9. If, during the audit, information is encountered which provides a reasonable basis for suspicion of fraud or other unlawful activity, a referral (DCAA Form 2000) should be made pursuant to CAM 4-702.	
10. If significant costs are questioned, the auditor should assess the impact on billings and forward pricing, and take appropriate action to prevent overcharging to the Government.	
11. Update the permanent files and ICAPS for the results of this review, if applicable. (MAAR 1)	

<b>A-1</b>	<b>Concluding Steps</b>	<b>WP Reference</b>
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1.	Summarize audit findings and questioned cost.	
2.	Conduct an exit conference with the contractor in accordance with CAM 4-304.	

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3. Generally, the results of this audit are to be directly incorporated into the Incurred Cost Audit Report. Prepare a memorandum for record summarizing the audit results in a format for inclusion in the Incurred Cost Audit Report.	
4. Update the permanent file for the results of this audit. (MAAR 3)	