

Master Document – Audit Program

Activity Code 10320	MAAR 13 – Purchase Existence and Consumption
Version 1.7, dated June 2012	
B-1	Planning Considerations
Purpose and Scope	
<p>1. The purpose of this evaluation is to verify that purchased direct materials/services were, in fact received and ascertain that they were:</p> <ul style="list-style-type: none"> • needed for the contract; • purchased in reasonable quantities; • purchased at a prudent price, • used on the contract, and • properly accounted for as to initial charge, transfer in or out, and residual value. 	
<p>2. This program should be used to verify purchased materials/services existence and consumption at major and non-major contractor locations to satisfy the mandatory annual audit requirement (MAAR) requiring verification that material was received and, if applicable, used on the contract. For mobile contractors, MAAR 13 must be performed for the current year during the first field visit to the contractor facility within the year. This will normally be accomplished during a price proposal audit, annual incurred cost audit, or within a specific material audit.</p>	
<p>3. "Purchased materials" are raw materials, purchased parts, subassemblies, etc., which are physically incorporated into an end product. Equipment purchased for the customer's use on a flow-through basis, such as computer hardware, or commercially available items for the contractor's use in performing the contract such as trucks and other equipment, are not deemed to be incorporated in the end product.</p>	
<p>4. "Purchased services" may include the performance of certain contract tasks by non-company personnel under the direction of the contractor or replacing entire functions within the contractor's organization. Services provided include purchased direct labor personnel to meet temporary requirements, who are supervised by the contractor, or purchasing specific types of services, such as engineers, technical writers and craftsmen, on a regular basis to perform contract requirements.</p>	
<p>5. If audit leads from prior evaluations suggest significant risk exists, the auditor should consider performing a MMAS review outside the normal cycle. The extent of audit effort in testing and verifying purchases existence and consumption is dependent on the perceived audit risk and is influenced by (1) the nature and significance of purchased material and services expenses, (2) prior audit experience with the contractor, (3) the reliability and acceptability of the contractor's MMAS system and related internal controls, (4) the contractor's mix of contracts and nature of contract provisions, and (5)</p>	

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the nature of the contractor’s organization and operations.
6. If the purchased services costs include a significant amount of consultant service costs, the consultant costs should be audited using the Consultant Services audit program (under 10160 activity code in APPS) to evaluate those costs for allowability, allocability, and reasonableness in accordance with FAR 31.205-33.
7. This program contains audit steps that will help satisfy all or part of the following mandatory annual audit requirements (MAARs):
<ul style="list-style-type: none"> • MAAR 1 – Update Internal Control Survey
<ul style="list-style-type: none"> • MAAR 3 – Permanent Files
<ul style="list-style-type: none"> • MAAR 13 – Purchases Existence and Consumption
References
1. CAM 6-300 Audit of Incurred Material Costs and Purchased Services
2. CAM 5-600 Audit of Purchasing System Internal Controls
3. CAM 5-700 Audit of Material Management and Accounting Systems Internal Controls
4. DFARS 242.72, 244, 252.242-7004, and FAR 31.205-26
5. CAM 10-413 Real Time Reporting (Flash Reports)
6. CAM 10-806 Audit Reports on Noncompliance with Disclosed or Established Practices, CAS, or FAR (Noncompliance Reports)
7. 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”

B-1	Preliminary Steps	
Version 1.7, dated June 2012		W/P Reference
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. Review CAM 6-300		
3. Review the ICQ or MMAS and Purchasing System Internal Control Audit Planning Summary (ICAPS) (if applicable) and related section of the contractor's permanent file to obtain a understanding of the contractor's material accounting policies, procedures, and the level of control risk associated with the related		

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<p>internal controls. Contractor organization charts, material charging and distribution system flowcharts, and listings of current Government contracts are very useful sources of information and should be referred to often during the analysis. All relevant information gathered during the audit should be referenced in the permanent file. (MAAR 3)</p>	
<p>4. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.</p>	
<p>When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the related incurred cost audit report in accordance with CAM 10-210.4a and 10-504.4a.</p>	
<p>5. 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. If the work is technical in nature, so that the auditor might be unable to determine whether the effort is being appropriately charged, consider requesting technical specialist assistance.</p>	
<p>6. 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>7. Request and review the contractor's internal audits of material purchases existence and consumption. Document any reported deficiencies and corrective actions.</p>	
<p>8. Consider audit leads or key prior audit findings from a review of permanent files and prior audits.</p>	
<p>9. Determine whether there are any outstanding contract or CAS noncompliances affecting purchased materials/services (particularly CAS 402 and 411). If there are noncompliances, discuss with your supervisor how they will affect your audit scope.</p>	
<p>10. Hold an entrance conference with the contractor to exchange preliminary information.</p>	

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<p>11. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>12. 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> <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: http://www.dodig.mil/PUBS/igdh7600.doc. • CAM Figure 4-7-3. <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	

C-1	Verification of Purchases Existence and Consumption	W/P Reference
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1. Obtain the appropriate contractor accounting records that support		

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the direct charges to contracts and provide the detail of materials and services purchased from an immediately prior accounting/reporting period (preceding day, week, or month) (CAM 6-302f., g., & h.).	
2. Select an appropriate sample from the contractor's accounting records.	
3. Physically locate all sample material items and/or verify that the sample services have been received/performed. Determine if any assist audits are required for any off-site locations (CAM 6-305.3a(2)). Request and track the assist audit in accordance with CAM 6-805. (MAAR 12)	
4. If the selected parts are not located at the contractor's facilities, the auditor needs to perform sufficient follow-up effort. Similarly, if selected purchased services are not being performed at the primary contractor's location, sufficient follow-up effort is required to verify the services are being performed. Follow-up effort could include:	
a. Request confirmation of the existence of selected parts and/or the performance of purchased services from the cognizant offsite auditors.	
b. Review shipping and receiving documents.	
c. Make inquiries to contractor and/or Government personnel and confirm through other corroborating evidence.	
5. Obtain purchase orders for the sampled materials/services and trace to receiving reports.	
6. Match receiving reports to vendor invoices.	
7. Verify that the sampled items were:	
a. Needed for the contract, by comparing purchase requisitions or purchase orders to contract requirements and/or bill of materials.	
b. Purchased in reasonable quantity (If a Purchasing System ICR or MMAS ICR is planned for the current fiscal year at this contractor, this step should not be included in the MAAR 13 review since it is covered in greater detail in the ICR).	
c. Purchased at a prudent price (If a Purchasing System ICR or MMAS ICR is planned for the current fiscal year at this contractor, this step should not be included in the MAAR 13 review since it is covered in greater detail in the ICR). All significant transactions involving charging to Government contracts on a basis other than cost should be reviewed.	
d. Used on the contract. When materials are requisitioned from stores, audit tests should include items charged to work orders or similar records.	
e. Properly accounted for as to initial charge, transfer in or out, and residual value in the accounting records. Miscellaneous costs associated with material purchases, such as	

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transportation, charged directly or as items of indirect costs should be reviewed, if material or risk warrants.	
8. Perform a follow-up of any back-ordered materials. Verify that these materials were either received at a later date or deleted from applicable vendor invoices.	

D-1	Development of Findings	<u>W/P Reference</u>
Version 1.7, dated June 2012		
	1. Document the sample audit results.	
	2. Discuss audit results with the audit supervisor.	
	3. If applicable, determine if material mischarges disclosed represent isolated instances or indicate more widespread conditions.	
	4. Determine any costs questioned related to material mischarges.	
	5. If conditions which raise a reasonable suspicion of fraudulent or other suspected irregular activities are disclosed and cannot be resolved by audit, promptly report these as described in CAM 4-702.4.	
	6. Incorporate any assist audits, and follow-up on any outstanding assist audits.	

A-1	Concluding Steps	<u>W/P Reference</u>
Version 1.7, dated June 2012		
1. Reporting Evaluation Results		
	a. Conduct an exit conference in accordance with CAM 4-304.	
	b. Discuss the audit findings and recommendations with the contracting officer.	
	c. If no significant deficiencies are disclosed, prepare a MEMORANDUM FOR RECORD to close the assignment. If significant internal control deficiencies are disclosed, draft a flash audit report using the format in CAM 10-413. Use the format in CAM 10-806 for reporting CAS/FAR noncompliances. (See CAM 6-303(b) for further reporting guidance.)	
	d. If applicable, schedule a follow-up review to be performed within a reasonable period of time.	

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e. Summarize and cross-reference working papers. Submit the audit work package for supervisory review.	
f. Update the ICQ or ICAPS, as appropriate. (MAAR 1)	
g. Update the MAARs control log, as appropriate. Prepare a MAARs control log for the contractor's fiscal year if one has not already been prepared.	