

Master Document – Audit Program

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| Activity Code 11090 | | Business System Deficiency Report Assignment |
| Version No. 1.1, dated June 2012 | | |
| B-1 | Planning Considerations | |
| Purpose and Scope | | |
| <p>This assignment is intended to be used in two circumstances:</p> <ul style="list-style-type: none"> • To prepare and issue an audit report on deficiencies/instances of noncompliance with the DFARS criteria in a contractor business system after they are identified in an audit other than business system audit (e.g., incurred cost, price proposal, or any other type of audit). In this case, the effort under this assignment may also include the performance of additional procedures to evaluate the noncompliances/deficiencies and to fully develop the elements of a finding (see CAM 10-409) if that was not fully accomplished in the originating assignment. However, such effort should generally not be extensive since the objective is not to evaluate the contractor’s compliance with all aspects of the applicable DFARS criterion or criteria but only to establish whether the noncompliance identified in the originating audit represents a significant deficiency/material weakness or is less severe than a significant deficiency/material weakness, yet important enough to warrant the attention of responsible contractor management officials. • To prepare and issue an audit report on a significant deficiency/material weakness in a contractor business system after it is identified and its existence is fully supported as part of an in-process business system audit. <p>In either case, the deficiency report is an integral part of the originating GAGAS examination engagement and this deficiency report assignment does not represent a separate examination engagement.</p> | | |
| <p><u>Reporting Deficiencies Identified During Audits Other Than Business System Audits</u></p> <p>In accordance with GAGAS, auditors are required to report certain findings identified during an attestation examination engagement even when those findings are related to areas outside the specific objectives of the examination (GAGAS 6.33 in the 2007 GAGAS Revision and GAGAS 5.20 in the 2011 GAGAS Revision). Those include, among other things all material weaknesses in internal control; deficiencies in internal control that are less severe than material weaknesses, yet important enough to merit the attention of those charged with governance; and noncompliance with provisions of regulations or contracts that have a material effect on the subject matter of the examination engagement. This would include deficiencies in a contractor business system (which will generally also result in noncompliance with the DFARS business systems criteria) identified during audits of incurred cost, price proposals, or any other non-business system audits. To facilitate tracking and timely resolution of such deficiencies/noncompliances, DCAA reports significant deficiencies/ material noncompliances with the DFARS business systems criteria (which would also be considered material weaknesses) and deficiencies in internal control that are less severe than material weaknesses, yet important enough to merit the attention of those charged with governance identified in audits</p> | | |

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| <p>other than business system audits in a separate report rather than in the report on the originating examination engagement where the conditions were identified.</p> |
| <p><u>Reporting Significant Deficiencies Identified During In-Process Business System Audits</u></p> <p>Because of the importance of timely communication of significant deficiencies/material weaknesses, in some cases, it may be appropriate to issue a deficiency report on a real-time basis prior to completion of the business systems audit once there is sufficient evidence supporting that a significant deficiency/material weakness exists and the elements of a findings are fully developed as a part of the business system audit (the originating assignment). Whether to issue a separate deficiency report prior to completion of the business system audit using this deficiency report assignment is a matter of auditor judgment, depending on the specific circumstances.</p> |
| <p>In either case, the deficiency report is an integral part of the originating GAGAS examination engagement and this deficiency report assignment does not represent a separate examination engagement. As a result, it is not necessary to perform and document many of the procedures generally required to comply with GAGAS for an examination as a part of this assignment, since the GAGAS procedures would be documented in the originating GAGAS examination engagement. This assignment should reference the originating assignment and include the working papers from that assignment that contain support for the deficiencies/noncompliances. In the case of deficiencies/noncompliances identified in other than business system audits, this assignment may also include additional procedures to evaluate the deficiencies/noncompliances and to fully develop the elements of a finding.</p> |
| <p>The program steps are intended as general guidance and should be tailored as determined necessary. The audit steps in the program should reflect a documented understanding between the auditor and supervisor as to the scope required to comply in an efficient and effective manner with generally accepted government auditing standards and DCAA objectives.</p> |
| <p>References</p> |
| <p>1. CAM 10-409</p> |

| B-1 | Preliminary Steps | WP Reference |
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| | Because this is not a separate examination engagement, generally only the following preliminary procedures are required, not a full risk assessment. | |
| | 1. Document the auditor’s discussion with the contracting officer regarding the deficiency in accordance with CAM 4-105. | |
| | 2. Review the working papers of the audit assignment that disclosed the deficiency/noncompliance with the DFARS business system criteria. | |

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| <p>a. For deficiencies identified during in-process business system audits, verify that sufficient evidence was obtained to support that a significant deficiency/material weakness exists and that the elements of a finding were fully developed as a part of the originating business system audit. This assignment should not proceed until that has been accomplished.</p> | |
| <p>b. For deficiencies identified in audits other than business system audits, if the deficiency was not evaluated and the elements of a finding (see CAM 10-409) were not fully developed in the originating assignment, tailor this audit program to include the necessary additional procedures. Those additional procedures should include steps to determine if the deficiency/noncompliance is a significant deficiency/material weakness or less severe than a significant deficiency/material weakness but important enough to merit the attention of the responsible contractor management officials so that appropriate action can be taken. The elements of a finding should be developed for both significant deficiencies/material weaknesses and those deficiencies determined to be less severe than a significant deficiency/material weakness but important enough to merit the attention of the responsible contractor management officials. Auditors should consider incorporating relevant steps from the applicable business systems audit program; i.e., those covering the DFARS criterion to which the deficiency relates and that are required to evaluate and fully develop the particular deficiency. (This will not necessarily be all procedures for a specific criterion.)</p> | |

| C-1 | Development of the Significant Deficiency | WP Reference |
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| 1. | Reference the originating audit assignment and incorporate working papers from that assignment that contain support for the deficiency/noncompliance with DFARS criteria. | |
| 2. | Perform any additional procedures determined necessary based on the preliminary procedures in B-01, step 2 to evaluate and fully develop the elements of a finding for the deficiency. | |

| A-1 | Concluding Steps | WP Reference |
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| <p>1. Summarize the results, prepare the draft report including the statement of conditions and recommendations, if applicable, in accordance with CAM 10-409 and the appendix, Other Matters Required to Be Reported under GAGAS, if applicable, and obtain supervisory review. Reports on deficiencies identified in other than business system audits may include significant deficiencies/material weaknesses and/or deficiencies that are less severe than significant deficiencies/material weaknesses but important enough to merit the attention of responsible contractor management officials. Reports on deficiencies identified in in-process business system audits will only include significant deficiencies/material weaknesses.</p> | |
| <p>2. After obtaining DCAA management approval, hold an exit conference to discuss the findings with the contractor. Provide a copy of the draft report or results of audit section, including the statement of conditions and recommendations and the appendix, Other Matters Required to Be Reported under GAGAS (if applicable), for comments in accordance with CAM 4-304.</p> | |
| <p>3. Finalize the audit report incorporating the contractor's reaction and auditor's response.</p> | |
| <p>4. Update the permanent files as appropriate.</p> | |