

Activity Code 17741	Post Award Accounting System Audit at Contractors with DoD Commercial Time-and-Materials (T&M) or Labor-Hour (LH) Contracts
Version 1.2, dated June 2012	
B-1	Planning Considerations
<p>1. This program is intended to be used for the performance of accounting system audits at contractors with DoD commercial Time-and-Materials (T&M) and Labor-Hour (LH) contracts and without flexibly priced contracts, to determine the adequacy of contractor accounting systems and practices for accumulating and billing costs under DoD commercial T&M/LH contracts. An accounting system is considered adequate if its procedures/practices (written or unwritten) are adequate to protect the Government's interest.</p> <p>2. Properly payable costs under a commercial T&M/LH contract are determined based on the terms and conditions of the contract and are <u>not</u> subject to the provisions in FAR Part 31.2 or Cost Accounting Standards (CAS).</p>	
References	
<p>1. CAM 6-1006, <i>Evaluation of Contractor's Procedures for Preparing Reimbursement Claims</i></p> <p>2. FAR Subpart 12.2, <i>Special Requirements for the Acquisition of Commercial Items</i></p> <p>3. FAR 52.212-4 and Alternate I, <i>Contract Terms and Conditions – Commercial Items</i></p> <p>4. CAM 5-200, <i>Preaward Surveys of Prospective Contractor Accounting Systems and Post Award Accounting System Audits</i></p>	

B-1	Preliminary Steps	
Version 1.2, dated June 2012		W/P Reference
<p>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"</p>		
<p>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</p>		

<p>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>3. 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>4. Identify contractor’s universe of DoD commercial T&M/LH contracts to determine:</p>	
<p>a. the number and dollar amount of DoD commercial T&M/LH contracts,</p>	
<p>b. the type of services provided, i.e., does the nature of the services result in higher risk to the Government; e.g., custodial services vs. highly technical services, and</p>	
<p>c. any special terms and conditions, i.e., review contract briefs.</p>	
<p>5. 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>6. Obtain a current Chart of Accounts with descriptions of charges which can be made to each account, (in lieu of a Chart of Accounts, a description of costs charged direct for each account category provided for in the contract is acceptable).</p>	
<p>7. 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</p>	

<p>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>	
<p>8. Conduct an entrance conference with responsible contractor personnel. Request the contractor to explain its procedures for monitoring subcontractor billings.</p>	
<p>9. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>10. Using the information obtained in the above steps, prepare an initial risk assessment to determine the scope of the audit (W/P B).</p>	

C-1	Adequacy of Accounting System for Accumulating and Segregating Costs	
	Version 1.2, dated June 2012	W/P Reference
	To determine that the contractor's accounting system is adequate for accumulating and segregating costs, use the following steps (expand as necessary depending on the risk assessment).	
	1. Verify that controls exist to preclude direct charging of indirect expenses.	
	2. Direct Labor. Based on the significance of the labor billed, consider performing a labor floor check concurrently with this audit (E-1). Review the contractor's procedures (written or unwritten) for accumulating labor costs by performing the following audit steps:	
	a. Document the understanding of the contractor's procedures for accumulating and billing labor hours, including subcontract hours. This includes the procedures for timekeeping and labor corrections/transfers. Verify that the contractor has procedures for ensuring that labor hours are	

billed in accordance with contract terms.	
b. Timekeeping system. Verify that labor is charged to intermediate and final cost objectives in accordance with the contractor's timekeeping procedures by selectively reviewing employees' original timecards (paper or electronic timecards).	
c. Labor distribution. Selectively test the contractor records that show the distribution of labor between jobs or contracts (e.g., trace timekeeping records to payroll records, and the distribution of labor records to and from the cost accumulation records).	
3. Direct Material, ODC and Subcontracts.	
a. Document the understanding of the contractor's procedures (written or unwritten) for accumulating and billing direct material, other direct cost (ODC), and subcontracts.	
b. Trace a sample of material, ODC and/or subcontract charges to supporting documentation (e.g., purchase order, receiving report, invoice, and payment) to verify that direct material, ODC and subcontracts are charged to the appropriate final cost objectives.	
c. Review and selectively test the contractor's procedures to verify that direct materials, ODC and subcontractors are required by the contracts to which they are billed..	
d. Verify that the contractor has procedures to ensure that the costs reimbursable under the materials, ODC and subcontracts provisions of the contract were not also included in the development of the hourly rates.	

D-1	Adequacy of Billing System for Preparing Reimbursement Claims	
	Version 1.2, dated June 2012	W/P Reference
	To determine that the contractor's billing system procedures for preparing vouchers are adequate (CAM 6-1006), use the following steps (expand as necessary depending on the risk assessment).	
	1. Limitation of costs. Verify that total contract expenditures against contract ceilings or any funding limitations are monitored.	
	2. Verify/test that (a) direct labor hours billed reconcile to the cost accounting records for both current and cumulative amounts and (b) direct labor has been billed at appropriate contract rates. Include testing of subcontract hours/subcontract rates and interdivisional effort to source documents.	
	3. Verify that the contractor has procedures to ensure that employees charging	

direct labor, including subcontractors, meet the contractually required employee qualifications.	
4. For other than labor costs, verify that billings reconcile to the subsidiary job cost ledger or other accounting records for both current and cumulative amounts claimed.	
5. Verify the contractor has procedures to ensure that ODC billed is authorized by contract terms (listed by type in the contract) - FAR 52.212-4, Alternate I(i)(1)(ii)(D)(1).	
6. Verify indirect costs, if applicable, are billed at amounts specified in the contract by sampling current vouchers.	
7. Verify that the contractor has procedures to ensure that subcontractor and vendor costs are only included in billings if payment to the subcontractor or vendor will be made in accordance with the terms and condition of the subcontract or invoice and ordinarily within 30 days of the contractor's payment request to the Government.	

E-1	Adequacy of Contractor's Timekeeping Procedures - Floor Check Procedures	
Version 1.2, dated June 2012		W/P Reference
If labor costs are significant, consider performing a labor floor check concurrently with this audit, as follows:		
1. Obtain a list or roster of employees charging hours under DoD commercial T&M/LH contracts.		
2. Select employees to be floor checked.		
3. Gather appropriate background data on the selected employees, such as ID number, job classification/category, contractually required labor qualifications, nature of work performed by the employee, and his/her department or cost center prior to conducting the floor check.		
4. Prepare worksheets to use during the floor checks to help guide the questioning and facilitate the recording of the employee's responses. (See LBR - Floor Check Worksheet in "Other Audit Guidance" folder.)		
5. Obtain a plant layout and note the selected employees' locations.		
6. Floor check the employees selected.		
a. Identify each selected employee by verifying the employee's ID number and name to the control list or roster.		
b. Discuss the nature of the work being performed and observe the actual work performance to determine whether the employee is performing in the proper direct labor capacity (as specified in the contract) and whether		

the time is being charged correctly. If the work is technical in nature, consider requesting technical assistance.	
c. Discuss the employee's timekeeping procedures to determine compliance with internal controls.	
d. Compare employee responses with previous data gathered. If inconsistent, ask appropriate follow-up questions.	
7. For selected employees not available for the interview, attempt to perform a follow-up interview. If a follow-up interview is not practical, perform additional audit steps to verify employee existence. These steps may include an observation of the employee's work area, an evaluation of the employee's personnel file, and/or a follow-up telephone interview.	
8. Obtain prompt explanations concerning all questionable procedures observed. This may require discussions with employee's supervisor, contractor management, accounting, and other appropriate personnel.	
9. Reconcile the observations regarding the employees' labor charges with subsequent payroll and labor distribution records and follow-up on any discrepancies.	
10. Summarize the results of the labor floor check.	

A-1	Concluding Steps	
	Version 1.2, dated June 2012	W/P Reference
	1. Discuss results with supervisor.	
	2. Discuss findings and recommended corrective action with contractor representatives. Hold and document the exit conference.	
	3. Follow up and resolve open or partially completed items and summarize audit results.	
	4. Coordinate with contractor to ensure that appropriate action is taken to effect correction of noted deficiencies.	
	5. Update the permanent file, as appropriate.	
	6. Prepare draft report incorporating the contractor's comments and audit rejoinder.	