

Master Document – Audit Program

Activity Code 17750	EVMS, System Validation or Surveillance
Version 1.4, dated January 2013	
B-1	Planning Considerations
Purpose	
<p>The objective of this audit is to examine the contractor’s compliance with the system criteria for an acceptable Earned Value Management System (EVMS) as prescribed in DFARS 252.234-7002. As a part of that objective auditors will:</p> <ul style="list-style-type: none"> • Obtain and document an understanding of relevant portions of the EVMS internal control over compliance sufficient to plan the audit and to assess control risk for compliance with the system criteria in DFARS 252.234-7002. • Report significant deficiencies/material weaknesses identified during the audit related to the contractor’s compliance with the system criteria in DFARS 252.234-7002, EVMS. 	
<p>Although, the objective of this audit is to determine the contractor’s compliance with the DFARS criteria and to report significant deficiencies based on the DFARS definition of a significant deficiency, GAGAS require auditors to include in the audit report material weaknesses based on the auditing standards definitions. A significant deficiency based on the DFARS definition will also generally represent a material weakness in internal control as defined in the auditing standards. Therefore, the term significant deficiency/material weakness as used throughout the audit program refers to a deficiency meeting the DFARS definition of a significant deficiency and the auditing standards definition of a material weakness.</p>	
<p>GAGAS also require auditors to report, based on the work performed, deficiencies, or a combination of deficiencies, in internal control that are less severe than material weaknesses (and, hence, also less severe than a significant deficiency as defined by the DFARS), yet important enough to merit the attention of those charged with governance (i.e., responsible contractor management officials). Auditors are not required to design audit procedures to identify these less severe deficiencies. However, if disclosed during the audit they should be included in the audit report. The EVMS audit report shell includes the appropriate language and presentation.</p>	
<p>DCMA is the executive agent for implementation of EVM on DoD contracts. For validation reviews the DCMA EVM Implementation Division will coordinate and complete the review process. For surveillance reviews, DCMA normally appoints a member of the Contract Management Office (CMO) as the surveillance monitor. The assigned CMO monitor is responsibility for coordinating and accomplishing the EVMS surveillance. The purpose of this audit program is to facilitate DCAA's participation in EVMS activity in support of DCMA’s validation and surveillance reviews. This program provides procedures to test contractor or subcontractors compliance with certain EVMS</p>	

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guidelines. The term contractor within this audit programs refers to both the prime contractor and subcontractor, however it relates to your audit.

EVMS Guidelines Under DCAA Cognizance - Based on coordination with the DCMA, DCAA audits will be limited to the following guidelines:

- ANSI.EIA 2.2h (Guideline 13) – Establish overhead budgets
- ANSI.EIA 2.3a (Guideline 16) – Record direct costs
- ANSI.EIA 2.3b (Guideline 17) – No allocation of single control account into two or more work breakdown structure (WBS) elements
- ANSI.EIA 2.3c (Guideline 18) – No allocation of single control account into two or more organizational breakdown structure (OBS) elements
- ANSI.EIA 2.3d (Guideline 19) – Record and allocate indirect costs
- ANSI.EIA 2.3e (Guideline 20)– Identify unit or lot costs
- ANSI.EIA 2.3f (Guideline 21) – Material accounting (pertaining to incurred and budgeted costs; earned value attributes reviewed by DCMA)
- ANSI.EIA 2.5c (Guideline 30) – Control retroactive changes (pertaining to incurred and budgeted costs; earned value attributes reviewed by DCMA)

Use this audit program in performing audits in support of all EVMS reviews (validation, standard surveillance post acceptance and follow-up audits). The auditor should tailor the audit program based on the scope and nature of the actual EVMS audit objectives.

Validation – The DCMA EVM Implementation Division will provide a written request for audit support for validation reviews that will include the 8 EVMS Guidelines under DCAA cognizance. The EVM Implementation Division conducts validation reviews for initial validation, expansion of EVMS to other contractor divisions or post acceptance reviews for cause. Prior to starting the contractor's self-assessment and the Government's ready assessment review, the contractor asserts that the EMV system is operational and contains sufficient data available to adequately test the system. This does not require formal documentation by the contractor.

Standard Surveillance – The CMO will provide a written request to DCAA for testing contractor compliance with certain EVMS guidelines based on their continuous surveillance and risk assessment. They may request a detailed evaluation encompassing the 8 EVMS Guidelines assigned to DCAA or limit the request to the guidelines related to the specific risk factor identified. The auditor will select the contracts for review based on the entire universe of EVMS contracts taking into consideration DCMA's assessment of at-risk contracts. The CMO and DCAA perform surveillance to ensure that the contractor's system continues to comply with the EVMS guidelines and produces valid and timely data. We also perform surveillance to ensure that any proposed or actual change to the EVMS comply with the guidelines and is reflected in the contractor's system description. Surveillance includes review of continued compliance with the EVM guidelines, as well as, verifying, tracing, and evaluating the information contained in the contract performance reports (CPRs) submitted to DoD procuring components.

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Post Acceptance Reviews – The DCMA EVM Implementation Division will provide a written request for audit support for post acceptance reviews. After the initial acceptance of a contractor's EVMS, we will not conduct additional system acceptance reviews unless there is a specified need determined by the Government. If a specific need is determined, the Government conducts a post acceptance review for cause. The scope and conduct of the post acceptance will focus on the systems processes and specific EVMS guideline and CPRs affected by the problem identified by the Government.

Follow-Up Reviews – DCMA will request audit support to address prior reported deficiencies after the contractor has completed their Corrective Action Plan (CAP). For guidelines under DCAA cognizance, the audit team will include audit steps to determine if the contractor corrected the deficiencies.

This program provides a logical sequence to the audit effort, and should reflect a mutual understanding between the auditor and the supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps in the program are general guidance and the auditor *should modify to fit the current audit as necessary*. Those steps not required should be marked "not applicable" (N/A) and lined through with proper explanation. The auditor should reference within this audit program, those portions of the audit that may be covered in other assignments (e.g., audits of billing system, budgeting system, progress payments, MMAS, estimating system).

The primary objective of EVMS guidelines is to ensure that contractors use effective internal cost and schedule control systems that provide contractor and Government managers with timely and auditable data to effectively monitor their programs, meet requirements, and control contract performance. In accordance with OMB Circular A-11 Part 7, DoD Instruction 5000.02, and FAR 34.2, compliance with EVMS guidelines shall be required on cost or incentive contracts, subcontracts, intra-government work agreements and other agreements valued at \$20 million. In addition to requiring compliance with EVMS guidelines, for cost or incentive contracts, subcontracts, intra-government work agreements, and other agreements valued at \$50 million or more, the cognizant contracting officer must formally validate and accept the contractor's EVMS through an initial compliance evaluation conducted by DCMA.

When required by the contract, the cost and schedule control system used by the contractor in planning and controlling the performance of the contract must comply with the criteria for EVMS in DFARS 252.234-7002. Although Contract Performance Reports (CPRs) are usually required by contracts that are subject to full compliance with EVMS guidelines, DoD reporting requirements, such as the CPRs, Contract Funds Status Reports (CFSRs), Cost Data Summary Reports (CDSR) and Contractor Cost Data Reports (CCDRs), are specified separately in DD Form 1423, Contract Data Requirements List (CDRL), contained in the contract.

The CDRL is a list of authorized data requirements for a specific procurement that forms a part of the contract. It is comprised of either a single DD Form 1423, or a series of DD Forms 1423 (individual CDRL forms) containing data requirements and delivery information.

EVMS surveillance begins with the award of the contract, continues through initial

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<p>compliance and acceptance, and extends throughout the period of contract performance. In accordance with DoD policies and procedures, qualified individuals from the Contract Management Office (CMO) and DCAA will accomplish EVMS surveillance of the contractor's system after acceptance, and review of data emanating from that system. The objectives of EVMS surveillance are:</p>
<ul style="list-style-type: none">• To ensure that the contractor's management control system continues to: (1) provide valid and timely management information; (2) comply with the DoD EVMS guidelines; (3) provide timely indications of actual or potential problems; and (4) provide baseline integrity.
<ul style="list-style-type: none">• To ensure that the contractor's required external cost and schedule reports contain: (1) information that is derived from the same database as that used by contractor management; (2) explicit and comprehensive variance analysis including proposed corrective action in regard to cost, schedule, technical, and other problem areas; and (3) information that depicts actual conditions.
Scope
<p>The scope of our EVMS audits will depend on how much reliance the auditor places on the accounting system, internal controls, cost representations, and billing procedures. If the results of prior audits and the preliminary audit steps indicate low audit risk, reduce audit scope accordingly. This decision must 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. This program does not replace individual auditor judgment and the auditor should supplement the audit steps to satisfy the needs of a particular assignment.</p>
<p>DCAA's validation and surveillance responsibilities include (1) auditing the contractor's accounting system policies and procedures for compliance with EVMS guidelines and contract provisions; and (2) performing audits of selective financial data contained in various reports submitted by the contractor to determine whether they accurately reflect the contractor's books and records.</p>
<p>Consider Cost Accounting Standards (CAS) implications during the review of the EVM system for contracts with CAS requirements.</p>
References
<p>The auditor should review the following references prior to starting the audit. (Note: if any of the following links fail to open, paste them in the browser and enter.)</p>
<ol style="list-style-type: none">1. CAM 11-200, Audit of Contractor Compliance with Earned Value Management System (EVMS) Guidelines.
<ol style="list-style-type: none">2. CAM 5-100, Obtaining an Understanding of a Contractor's Internal Controls and Assessing Control Risk

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3. CAM 10-409, Statement of Condition and Recommendations
4. DCAA Headquarters Policy Programs Division EVMS site [REDACTED]
5. National Defense Industrial Association (NDIA) Web site for the ANSI/EIA-748 1 Intent Guide: https://www.ndia.org
6. EVM Implementation Guide (accessed through DCAA Intranet under Audit Tools, EVMS or the EVMIG website (http://guidebook.dcmamail.com/79/EVMIG.doc) to assure the most current version).
7. FAR 34.2, Earned Value Management System
8. FAR 52.234-4, Earned Value Management System, 52.234-3 Post Award IBR Policy, 52.234-2 Pre-Award IBR
9. DFARS 234.2, Earned Value Management System
10. DFARS 234.203, Solicitation Provision and Contract Clause.
11. DFARS 252.234-7001, Notice of Earned Value Management System (Previously 252-242-7001).
12. DFARS 252.234-7002, Earned Value Management System (Previously 252-242-7002). Older contracts may require FAR 52.234-4 Earned Value Management System.
13. Contract Data Requirements List (CDRL) DD Form 1423 for specific EVMS contract terms.
14. Department of Energy Reviews: DOE G413.3-10 05/06/2008 - https://www.directives.doe.gov/directives/current-directives/413.3-EGuide-10/view
15. For National Aeronautics and Space Administration (NASA) Reviews: NASA FAR Supp Re EVM Part 1834 - http://www.hq.nasa.gov/office/procurement/regs/1834.htm
16. For Supervisors of Shipbuilding, Conversion and Repair (SUPSHIPs) Reviews: SUPSHIP Operations Manual (SOM) (NAVSEA S0300-B2-MAN-010) 2008 Chapter 7: http://www.navsea.navy.mil/supship/SOM/Ch_7_Earned_Value_Management.pdf

B-1	Preliminary Steps	W/P Reference
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	<p>1. Research and Planning</p> <p>The audit report will report on the contractor’s compliance with the certain aspects of the system criteria <u>during a period of time</u>, consistent with the attestation reporting standards (AT 601.55b). Plan the audit and select CPRs accordingly. When the auditor plans to incorporate other audits into this assignment, this planning must also consider the timing</p>	

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<p>and period covered by those audits. The period covered should be selected to limit the elapse of time between the period of testing and the issuance of the report to the extent possible. For example, the audit team may decide to wait until it has obtained and documented the understanding of the system before finalizing the period covered by the audit. The auditor may need to adjust the timing of some of the planning steps below.</p>	
<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, & AMGMs”.</p>	
<p>b. Review the permanent files and audit leads to obtain background information, identify potential EVMS risk factors, and identify high risk contracts to help establish the scope of audit. Review prior accounting system audits, (e.g., Control Environment and Overall Accounting System Audit (11070), deficiency reports, and limited scope audits related to the accounting system, etc.) and if applicable, the Survey of Contractor’s Organization, Accounting System and System of Internal Controls (ICQ) for any impacts to the EVMS.</p>	
<p>c. Review the most recently completed audit of the Accounting System to determine the extent that the testing done in that audit can be used in determining the contractor’s compliance with EVM guideline.</p>	
<p>d. Obtain and document the understanding of the relevant contractor business systems that may impact the contractor’s EVMS. Identify any deficiencies that would impact the audit and document their potential impact on the contractor’s EVM system.</p>	
<p>2. Coordination with DCMA and Contracting Officers</p>	
<p>a. Coordinate with the EVM Implementation Division, DCMA designated surveillance monitor and appropriate contracting officers to discuss DCMA’s planned review:</p>	
<p>a. Identify the EVMS Guidelines of the DCMA planned review related to DCAA’s area of responsibility.</p>	
<p>b. Determine the reports and areas of the contractor’s system that are planned for review during the current validation/surveillance period. For surveillance reviews request a copy of the current Standard Surveillance Plan (SSP) from the DCMA EVMS monitor and consider in selecting contracts for testing.</p>	
<p>c. Contact the contracting officer/ACO to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope</p>	

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<p>and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer/ACO, 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/ACO, and appropriately adjust the scope of audit.</p>	
<p>d. For surveillance audits, determine whether DCMA has validated the contractor's EVMS, and if so, include validation document in working papers. The signed validation document should be available from the DCMA EVM surveillance monitor.</p>	
<p>e. Coordinate with DCMA to identify and obtain copies of any existing corrective action requests (CARs) or corrective action plans (CAPs) issued against the guidelines under DCAA’s responsibility.</p>	
<p>f. Brief the local DCMA regarding outstanding business system deficiencies. This should involve an open discussion between DCMA and DCAA to determine how business system deficiencies may affect any EVM Guidelines.</p>	
<p>g. Integrate the requester’s needs into the EVMS audit by including audit procedures necessary to address any additional risk areas identified by the ACO or DCMA EVMS monitor, including activities required to support the surveillance team in accordance with CAM 11-201d.</p>	
<p>h. Document the need for technical assistance. Coordinate with the DCMA surveillance monitor and request any required technical assistance.</p>	
<p>i. Electronically transmit an acknowledgement/notification letter to the appropriate ACO/Buying Command notifying them of the commencement of the audit and expected completion date. Issue the acknowledgement/notification letter within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
<p>3. Planning Meeting with Contractor - Hold a planning meeting with the contractor to provide notification of the upcoming audit, inquire about the locations of the EVMS functions to determine if coordination with other DCAA offices is necessary, to schedule the entrance conference, and to request the contractor prepare a general overview of their system for presentation at the entrance conference.</p>	
<p>4. Team Discussions</p>	

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<p>a. Hold a planning meeting with the audit team (e.g., RAM, FAO Manager, Supervisor, Auditors). Topics to discuss should include:</p> <ol style="list-style-type: none"> (1) how to obtain and document the system understanding for the guidelines under DCAA cognizance; (2) the objectives of the audit (primarily compliance with certain aspects of DFARS 252.234-7002); (3) coordination needed with other DCAA offices (e.g., CAC, Corporate offices, other locations where EVMS functions are performed, FD, etc.). 	
<p>b. The team should also discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the contractors EMVS. 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. 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 procedure 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><i>Principle 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: 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</p>	

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<p>above into the address block in Internet Explorer.)</p>	
<p>5. Entrance Conference and System Demonstrations</p>	
<p>a. Preparation of the Contractor Notification Letter. Draft the Contractor Notification Letter using the shell at working paper 11b. The proforma Contractor Notification Letter contains a list of information needed from the contractor to perform the audit and identifies the key areas to address in the system demonstrations.</p>	
<p>b. Entrance Conference. The purpose of this meeting is to:</p> <ol style="list-style-type: none"> 1) Provide the Contractor Notification Letter and discuss the information being requested from the contractor; 2) Discuss the purpose of the audit and expectations such as the EVMS demonstration requirements, the level of detail that should be covered in the demonstrations, who should participate in the meetings, the length and location of the meetings, and other pertinent information; 3) Have the contractor provide a general overview of the EVM system and processes; and 4) Set up the dates for demonstrations on the key processes. Hold the demonstrations within approximately two weeks of the entrance conference. 	
<p>c. System Demonstration (the entire team should attend the demonstration, if possible).</p> <p>The purpose of the contractor EVMS demonstration is to obtain and document an understanding of the contractor’s internal controls relating to the certain aspects EVMS, including compliance with the DFARS criteria related to the EVMS (DFARS 252.234-7002). During the contractor’s walk through, the audit team should document their understanding of the system to the extent possible (e.g., by making detailed notes on the system documentation provided by the contractor and obtain screen shots of live demonstration when possible) and should take full advantage of the demonstrations to ask questions to ensure they have a sufficient understanding. (Areas to be addressed are included in w/p B-02. Also, this audit package provides w/p 31a for assistance in documenting the system.)</p> <p>During the walk-through discuss the following:</p> <ul style="list-style-type: none"> • Accounting software and version, EVMS software and version and all changes to the EVMS description and procedures since the last EVMS audit. • Significant EMVS covered contracts or programs to consider in selecting contracts for testing. <p>Note - <u>Inquiry alone is not sufficient to obtain an understanding of</u></p>	

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<p><u>the contractor’s internal controls.</u> Procedures to obtain an understanding of contractor’s compliance with certain aspects of the DFARS include inquiries of contractor personnel, observing the application of specific controls, inspecting documents and reports, and performing walk-throughs of the system (including understanding the flow of data from the accounting system to the EVMS).</p> <p>As requested in the contractor notification letter, the contractor should provide and walk the audit team through the requested information and demonstrate how they accomplish each of the key EVMS processes/functions and how the contractor ensures compliance with the DFARS 252.242-7006 system criteria.</p> <p>Note: It may be necessary to conduct additional one-on-one demonstrations with the process owners at their work site to gain a full understanding of the processes.</p>	
<p>6. Coordination with Other FAOs</p>	
<p>a. FAOs that have cognizance of contractors with significant classified contracts should coordinate with the Field Detachment to determine the DCAA office with responsibility for performing EVMS on classified contracts. This coordination will ensure consistency and adequate audit coverage. Document this coordination in the working papers.</p>	
<p>b. Close coordination is required at FAOs cognizant of multi-segment contractor locations that use common EVM systems and/or policies and procedures. For each contractor location, the auditor should document which FAO has the EVMS audit responsibilities and who will perform the specific audit steps. (Reference OAG Responsibility Matrix, DCAA Intranet, Audit Programs, Reports, OAG)</p>	
<p>c. Determine the extent EVMS guidelines flow down to subcontractors and request assist audits as necessary.</p>	
<p>(1) Determine the extent of prime contractor surveillance.</p>	
<p>(2) Determine whether the contractor has tasked its subcontractors to correct deficiencies noted in its surveillance reviews.</p>	
<p>(3) In those cases where the prime contractor does not perform sufficient EVM surveillance, request an assist audit.</p>	
<p>7. Establishing Testing Plan</p>	
<p>a. Review a current universe of all contract performance reports submitted in response to the contract data requirements list (CDRL-DD Form 1423) contained in EVM covered contracts and subcontracts. In cases where EVM requirements have been included in FFP and Time & Material contracts or CLINS, the</p>	

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<p>auditor should discuss with the ACO or DCMA EV Specialist whether the work lends itself to meaningful use of EVM or if a waiver is appropriate. If the program manager confirms that the EVM requirement is appropriate, include in the universe.</p>	
<p>b. Select the sample of contracts with EVMS requirements to test for the implementation-testing portion of the audit. The sample of contracts should reflect high-risk or sensitive contracts, including contracts where we identified problems in prior year testing.</p>	
<p>c. From the sample of contracts identified above, identify latest CPRs to test the attributes of the EVMS guidelines for implementation on contracts. The actual testing will be performed in work paper sections D through F.</p>	
<p>d. Evaluate the contractor’s contract briefings for selected contracts. Brief any contracts that the contractor has not briefed as part of this audit. Check contract briefings for EVMS contract provisions.</p>	
<p>10. Initial Risk Assessment. Document on W/P B, the risk factors and any fraud indicators identified during the team discussions and other risk assessment procedures and design audit procedures to address those risks 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 audit. This involves tailoring (lining-out/modifying) the detailed audit program steps and/or developing additional steps to address areas of risk.</p>	

<p>C-1</p>	<p>System Description for Validation/Surveillance with the ANSI/EIA-748 Guidelines (DFARS 252.234-7002(b)(1))</p>	<p>W/P Reference</p>
<p>Version 1.4, dated January 2013</p>		
<p>For validation reviews, determine whether the EVMS System complies with the EVMS Guideline. For validated systems, ensure the contractor’s EVMS is continuing to operate as previously accepted, and is continuing to comply with the EVM guidelines. Perform the following steps for the EVM guidelines under DCAA’s responsibility and included in the scope of audit as documented in w/p B.</p> <p>In this section, the auditor will review the contractor’s system description and applicable policies and procedures for compliance with the ANSI/EIA-748 guidelines, and document how the contractor’s system description meets the intent of the ANSI guidelines for the DCAA guidelines. Use the guidance in “Evaluation of Contractor’s System Description” (Other Audit Guidance) w/p 31a.</p>		

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<p>Audit program steps for testing the contractor’s actual compliance with the ANSI/EIA-748 guideline attributes are contained in sections D through F.</p> <p>If the contractor’s system has changed with respect to these guidelines since the last system surveillance audit, evaluate the policies and procedures for continued compliance using the attributes described for each of the guidelines below. Utilize the contractor’s cross reference from the system description to the ANSI guidelines if available.</p>	
<p>1. <u>ANSI.EIA 2.3a (Accounting Guideline 16)</u>. “Record direct costs in a manner consistent with the budgets in a formal system controlled by the general books of account.” Evaluate the system description and policies and procedures for compliance as described below.</p>	
<p>a. The contractor’s accounting system provides a basis for auditing all direct costs charged to contracts (i.e., the direct costs charged to contracts can be traced back to documentation supporting the costs; e.g. accounting books and records).</p>	
<p>b. The accounting system accumulates and allocates direct costs to control accounts on the same basis as budgets.</p>	
<p>c. Cumulative actual costs (ACWP) reported in the contract performance report agree with, or are reconcilable to, the costs recorded in the general books of account (accounting system).</p>	
<p>2. <u>ANSI.EIA 2.3b (Accounting Guideline 17)</u>. “When a work breakdown structure is used, summarize direct costs from control accounts into the work breakdown structure without allocation of a single control account to two or more work breakdown structure elements.” Evaluate the system description and policies and procedures for compliance as described below:</p>	
<p>a. The EVMS accumulates actual costs by WBS to allow for the direct comparison with associated budgeted costs by WBS.</p>	
<p>b. The EVMS does not allocate a single control account to two or more WBS elements. Direct costs should summarize from the control account level through the contract WBS to the total contract level without allocation of a lower level WBS element to two or more higher level WBS element to ensure no double counting.</p>	
<p>3. <u>ANSI.EIA 2.3c (Accounting Guideline 18)</u>. “Summarize direct costs from the control accounts into the organizational elements without allocation of a single control account to two or more organizational elements.” Evaluate the system description and policies and procedures for compliance as described below:</p>	
<p>a. The EVMS accumulates direct costs to allow a direct comparison</p>	

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with associated budgets at the appropriate organizational level.	
b. The EVMS does not allocate a single control account two or more higher level organizational elements. Direct costs should summarize from the control account level through the contract OBS to the total contract level without allocation of a lower level OBS element to two or more higher level OBS elements to ensure no double counting.	
4. <u>ANSI.EIA 2.3d (Accounting Guideline 19)</u> . “Record all indirect costs which will be allocated to the program consistent with the overhead budgets.” Evaluate the system description and policies and procedures for compliance as described below:	
a. The contractor accumulates indirect costs in accordance with the contractor’s Disclosure Statement or written accounting policies and procedures for appropriate allocation through the contract WBS and organizational structure to the contract level.	
i) Indirect costs are charged to the appropriate indirect pools and incurring organization.	
ii) The bases and rates for allocating costs from each indirect pool are consistently applied.	
iii) The bases and rates for allocating costs from each indirect pool to commercial work are consistent with those used to allocate such costs to Government contracts.	
b. Update indirect rates in a timely manner to ensure realistic allocations of indirect costs without significant adjustments to performance measurement information.	
c. The lines of authority for incurring indirect costs correspond to the lines of responsibility for management control of the same components of costs.	
5. <u>ANSI.EIA 2.3e (Accounting Guideline 20)</u> . “Identify unit costs, equivalent unit costs, or lot costs when needed.” Evaluate the system description and policies and procedures for compliance as described below:	
a. The accounting system can accumulate cost by lot, by unit or equivalent unit in terms of labor, material, other direct costs and indirect costs as required.	
6. <u>ANSI.EIA 2.3f (Accounting Guideline 21)</u> . “For EVMS, the material accounting system will provide for: (1) accurate cost accumulation and assignment of costs to control accounts in a manner consistent with budgets using recognized, acceptable, costing techniques, (2) cost recorded for accomplishing work performed in the same period that earned value is measured and at the point in time most suitable for	

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<p>the category of material involved, but no earlier than the time of actual receipt of material and (3) full accountability of all material purchased for the program including the residual inventory.” This guideline is limited to incurred and budgeted costs; DCMA will review the earned value attributes. Evaluate the system description and policies and procedures for compliance as described below:</p>	
<p>a. Accurate cost accumulation and assignment of material costs to control accounts in a manner consistent with budgets using recognized, acceptable, costing techniques (actual cost, FIFO, LIFO, average unit cost, bulk costing, etc.)</p>	
<p>b. Material costs are reported (ACWP) within the same accounting period as the associated earned value (BCWP). When necessary and significant, and when material actuals are not yet available, the use of estimated ACWP is required to ensure accurate performance measurement.</p>	
<p>c. All material for the contract is fully accounted for (including residual material).</p>	
<p>d. The system can differentiate between price and usage variance.</p>	
<p>7. <u>Planning, Scheduling, and Budgeting, ANSI.EIA2.2h (Guideline 13).</u> “Establish overhead budgets for each significant organizational component of the company for expenses which will become indirect costs. Reflect in the program budgets, at the appropriate level, the amounts in overhead pools that are planned to be allocated to the program as indirect costs.” Evaluate the system description and policies and procedures for compliance as described below:</p>	
<p>a. The contractor’s Disclosure Statement and/or other written accounting policies and procedures includes a definition of indirect expenses, overhead pools, each item included in the composition of the overhead pools, and the basis for allocation of overhead costs to a contract over the life of the contract.</p>	
<p>i) Overhead cost budgets are established at least annually, for each organization which has authority to incur overhead costs.</p>	
<p>ii) Identifies the WBS and organizational levels for application of projected overhead costs.</p>	
<p>b. The contractor adjusts the projected overhead costs in a timely manner to reflect changes in current or projected base costs, overhead costs and overhead structure.</p>	
<p>8. <u>Revisions and Data Maintenance, ANSI.EIA 2.5c (Guideline 30).</u> “Control retroactive changes to records pertaining to work performed that would change previously reported amounts for actual costs, earned value, or budgets. Adjustments should be made only for corrections of errors, routine accounting adjustments, effects of</p>	

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<p>customer or management directed changes, or to improve the baseline integrity and accuracy of performance measurement data.” This guideline is limited to incurred and budgeted costs; DCMA will review the earned value attributes. Evaluate the system description and policies and procedures for compliance as described below:</p>	
<p>a. Make adjustments to direct and indirect accounting data only for routine accounting adjustments (e.g., end of period accruals) or corrections of errors. The contractor should control accounting changes to prevent inappropriate changes to performance measurement information.</p>	
<p>b. When appropriate, make accounting adjustments in a timely manner.</p>	
<p>9. Summarize the results of the review of the system description.</p>	

<p>D-1</p>	<p>Reconciliations and CPR DID (Guidelines 16, 17, 18, 20, and 21) <i>(From this point forward, the reference to a specific guideline should be equated to the appropriate ANSI.EIA number.)</i></p>	<p>W/P Reference</p>
<p>Version 1.4, dated January 2013</p>		
<p>DCAA’s purpose for reviewing the contractor’s reconciliation of EVMS data to the contractor’s accounting records is to ensure that the actual costs recorded in the accounting system properly flow into the EVM system and subsequent reports. DCAA’s purpose for reconciling external cost management reports, such as the CPR and CFSR, with each other and with contractor internal reports and other external reports, such as the Contractor Cost Data Report (CCDR), Quarterly Limitation on Payments (QLOP), progress payment requests, and public vouchers, is to ensure that the information being reported is accurate and differences in data from one report or reporting level to another are logical, consistent, and explainable. The contractor should make the necessary reconciliations of the EVM data to the accounting records.</p> <p>In conjunction with completion of this section, determine whether the contractor’s practices are consistent with the EVM system descriptions and policies and procedures.</p>		
<p>1. Review CPRs (identified in Audit Step B-14) for compliance with; reporting due dates, format, content, and contractual requirements contained in the Contract Data Requirements List (CDRL) (DD Form 1423-1) and the applicable Data Item Description (DID) as specified in the CDRL. Use the DID checklist at w/p 31c.</p>		

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<p><i>(For contracts awarded after June 2012, the Integrated Program Management Report (IPMR) (DI-MGMT-81861) replaces DI-MGMT-81466A; therefore, the DID checklist should be adjusted as appropriate. The IPMR combines the prior CPR and IMS DIDs.)</i></p>	
<p>2. Review the CPR (Formats 1 and 2) to verify mathematical accuracy. Verify the accuracy of the math from the lowest level WBS/OBS to the higher level WBS/OBS on the CPR. For example, verify the WBS level 4 costs equal the level 3 costs and the level 3 costs equal the level 2, etc. This should be done for both the current month and cumulative to date amounts. (Guidelines 17 and 18)</p>	
<p>3. Obtain and review the contractor's reconciliation of the CPR to the cost ledgers. (Guideline 16)</p>	
<p>a. Trace the reported cumulative ACWP to the contractor's job cost ledgers at the total contract level, and selectively trace at the control account level. As a part of this trace, ensure that the contractor properly supports and documents estimated actual, when used. (Guideline 16)</p>	
<p>b. Determine how the subcontractor provides EVM data to the prime contractor and if the prime adjusts the data for incorporation into the prime CPR. Consider the impact of this process may affect the reconciliation of the CPR ACWP to the accounting system books and records. (Guideline 16)</p>	
<p>c. Verify the contractor is reconciling major subcontractor CPR actual costs to the prime contractor's accounting records (e.g. subcontract payments and invoices). (Guideline 16)</p>	
<p>d. Test the contractor's accounting system to ensure it provides a basis for auditing all direct costs charged to contracts (i.e., the direct costs charged to contracts can be traced back to documentation supporting the costs; e.g. accounting books and records, records are maintained to show full accountability for all material purchased including residual inventory). <i>Various MAARs reviews and incurred cost reviews would likely perform this step.</i> The auditor should reference these traces here in detail and not duplicate the steps if adequately tested elsewhere. (Guideline 16)</p>	
<p>e. Verify that the accounting system accumulates and allocates direct costs to control accounts on the same basis as budgets. To perform this review, identify the level at which the contractor takes performance (BCWP) and records actuals (ACWP). The contractor's system structure should ensure a valid comparison between the actuals collected, and controlled by the general books of account, and the budget earned. (Guideline 16)</p>	

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<p>4. Reconcile the CPR to the CFSR. In addition, reconcile the CPR with other reports prepared by the contractor for other purposes, such as contractor cost data reports (CCDR), quarterly limitations on payment statements (QLOP), progress payment requests or public vouchers. Use the guidance in Reconciliation of CFSR to CPR (w/p 31b Other Audit Guidance).</p>	
<p>5. Request the contractor explain any differences between the CPR, the CFSR and the cost ledgers. Verify significant contractor assertions to supporting documentation. Differences the contractor cannot explain and provide verification are indicators of significant internal control deficiencies in the cost accounting system and/or the performance measurement system.</p>	
<p>6. Select a sample of WBS from the CPR (Format 1). Obtain the WBS dictionary from the contractor. It should identify the lower level WBS and the control accounts (CA) that roll up to the reportable WBS selected. The rollup should be in accordance with the Responsibility Assignment Matrix (RAM) also available from the contractor.</p>	
<p>a. Test the accumulation of actual costs (ACWP) by WBS to allow for the direct comparison with associated budgeted costs (BCWS) by WBS. (Guideline 17)</p>	
<p>b. Test the roll up of control accounts to ensure the contractor does not allocate a single control account to multiple WBS elements. Direct costs should summarize from the control account level through the contract WBS to the total contract level without allocation of a lower level WBS element to multiple higher level WBS elements (to ensure no double counting exists). (Guideline 17)</p>	
<p>7. Select a sample of OBS elements from the CPR (Format 2). Obtain a report from the contractor that identifies the lower level OBS and the control accounts (CA) that roll up to the reportable OBS selected. The rollup should be in accordance with the Responsibility Assignment Matrix (RAM).</p>	
<p>a. Test the accumulation of direct costs by OBS to allow a direct comparison with associated budgets (BCWS) at the appropriate organizational level (OBS). (Guideline 18)</p>	
<p>b. Test the roll up of control accounts to ensure the contractor does not allocate a single control account multiple higher-level organizational elements. Direct costs should summarize from the control account level through the contract OBS to the total contract level without allocation of a lower level OBS element to multiple higher level OBS elements (to ensure no double counting exists). (Guideline 18)</p>	

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8. Verify the accounting system can accumulate cost by lot, by unit or equivalent unit in terms of labor, material, and other direct and indirect costs, as required by contract. (Guideline 20)	
9. Verify the contractor accumulates and assigns actual costs to control accounts using the same costing techniques used to establish budgets. The contractor must use the same basis used for both budgeting and applying actual costs for materials. (Guideline 21, limited to incurred and budgeted costs, earned value reviewed by DCMA)	
10. Verify the contractor reports material costs (ACWP) within the same period as the associated earned value (BCWP). The use of estimated ACWP is required to ensure accurate performance measurement when material actuals are not yet available (when BCWP is recorded). Verify Control Accounts containing BCWP also contain ACWP. (Guideline 21, limited to incurred and budgeted costs, earned value reviewed by DCMA)	
11. Verify material for the contract is fully accounted for including residual material. (Guideline 21, limited to incurred and budgeted costs, earned value reviewed by DCMA)	
12. Select a sample of material items from the Control Accounts (consider the same WBS' selected above) and compare the incurred amounts (ACWP) to the original documentation supporting those items. Have the contractor reconcile any differences. (Guideline 21, limited to incurred and budgeted costs, earned value reviewed by DCMA)	
13. Summarize the results of the review.	

E-1	<u>Revisions and Data Maintenance - Guideline 30</u>	W/P Reference
Version 1.4, dated January 2013		
<p>The purpose of this section is to review the contractor's procedures for incorporation of authorized contract changes and controls to prevent unauthorized retroactive changes. Guideline 30 is limited to incurred and budgeted costs; DCMA will review the earned value attributes.</p> <p>In conjunction with completion of this section, determine whether the contractor's practices are consistent with the EVM system descriptions and policies and procedures.</p>		
1. Verify the contractor's management system provides for incorporation of authorized contract changes and internal re-planning. This should ensure that budget is not transferred independent of work scope, and that retroactive changes are strictly controlled.		

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2. Verify adjustments to ACWP and BCWS made for routine accounting adjustments (e.g., end of period accruals) or corrections of errors.	
a. When appropriate, the contractor makes accounting adjustments in a timely manner.	
b. Request copies of system and/or program documentation supporting the approval and input of the adjustments. (Note: The contractor should make adjustments at the same level in which the costs were originally incurred.)	
3. Identify all cost transfers between work breakdown structures (WBSs) and other contracts. Select a sample and:	
a. Verify the contractor properly approves transfers and maintains documentation explaining the reasons for the transfers.	
b. Determine if there appears to be a pattern to the transfers that indicates a recurring problem in booking of costs.	
4. Summarize the results of the review.	

F-1	Direct & Indirect Rate Management – Guidelines 13, 16 and 19	W/P Reference
Version 1.4, dated January 2013		
<p>The purpose of this section is to identify the contractor’s management responsible for establishing and controlling direct and indirect rates and to review the policies, procedures and practices related to those rates. The contractor should have overhead budgets for each significant organizational component in accordance with their disclosure statement. The contractor should also monitor the direct and indirect rates throughout the year and adjust the rates as required. <i>Review the most recently completed Forward Pricing Rate Proposal audit to determine the extent that the testing done in that audit can be used to complete Audit Steps 1 and 2 below and can be referenced in detail.</i></p> <p>In conjunction with completion of this section, determine whether the contractor’s practices are consistent with the EVM system descriptions and policies and procedures.</p>		
1. Verify that the lines of authority for incurring indirect costs correspond to the lines of responsibility for management control of the same components of costs. (The purpose is to ensure that the managers identified have control over the expenses in the pools used to create the indirect rates and can require changes to the expenses or can adjust the rates if that is required). (Guideline 19)		

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<p>2. The contractor’s Disclosure Statement and/or other written accounting policies and procedures includes a definition of indirect expenses, overhead pools, each item included in the composition of the overhead pools, and the basis for allocation of overhead costs to a contract over the life of the contract.</p>	
<p>a. Verify that the contractor has established overhead cost budgets at least annually, for each organization which has authority to incur overhead costs. (Guideline 13)</p>	
<p>b. Review and ensure the contractor adjusts the projected overhead costs in a timely manner to reflect changes in current or projected base costs, overhead costs and overhead structure. (If contractor has an agreement with DCMA on thresholds for revising rates, the auditor will test compliance with that agreement during the last year.) The Contractor should demonstrate the processes followed monthly or quarterly to review their management of the indirect rates. (Guideline 13)</p>	
<p>c. Ensure the contractor accumulates indirect costs in accordance with the contractor’s Disclosure Statement or written accounting policies and procedures for appropriate allocation through the contract WBS and organizational structure to the contract level. Review the most recently completed incurred cost review to determine the extent that the testing done in that audit can be used. Complete the following steps: (Guideline 16 & 19)</p>	
<p>i) Verify the accumulation of indirect costs for comparison with the corresponding budgets.</p>	
<p>ii) Test to ensure the indirect costs are charged to the appropriate indirect pools and incurring organization.</p>	
<p>iii) Test the contractor consistently applies the bases and rates for allocating costs from each indirect.</p>	
<p>iv) Ensure that the bases and rates for allocating costs from each indirect pool to commercial work are consistent with those used to allocate such costs to Government contracts.</p>	
<p>3. Verify the contractor updates the direct labor and indirect rates in the EVMS system in a timely manner to ensure realistic allocations of direct and indirect costs without significant adjustments to performance measurement information. Test the rate tables used in the EVMS system to calculate the direct labor and indirect dollars for timeliness i.e. matching to the current forward pricing/budgeted rates, or the contractor’s published rates. (Guideline 16 & 19)</p>	
<p>4. Summarize the results of the review.</p>	

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A-1	Concluding Steps	W/P Reference
Version 1.4, dated January 2013		
1.	Discuss the factual matters with the ACO and the DCMA surveillance monitor to ensure consideration of all pertinent information.	
2.	Summarize the results of the review.	
3.	Complete indexing and reference working papers.	
4.	Draft Report (CAM 11-203.3 and 10-1200).	
a.	The report should fully describe any significant deficiencies together with recommendations for their correction. When possible, quantify the significance of the reported deficiencies (i.e. dollars, number of occurrence, number of contracts involved).	
b.	When an assist audit and/or a technical evaluation is necessary, and is not obtained, the Qualification paragraph should be used to qualify the results of audit for the non-receipt of such reports (CAM 10-1204.4).	
5.	Obtain supervisory and management review of all identified significant system deficiencies.	
6.	Conduct exit conference and provide copies of Draft Statement of Conditions and Recommendations to the contractor (CAM 4-304 and 11-203.3). Also, provide copies to DCMA EV Review Chief or the CMO using the guidance in CAM 11-203.5.a.	
7.	Complete administrative working papers and update permanent files (ICAPS, MAARs, CAS, etc.) (MAAR 1, MAAR 3).	