

Master Document – Audit Program

Activity Code 17870		CCDR
Version 3.6, dated June 2012		
B-1	Planning Considerations	
Purpose and Scope		
<p>This audit evaluates the contractor’s compliance with DFARS 252.234-7004, Cost and Software Data Reporting System. The audit program assists the auditor in evaluating the accuracy of the data reported in contractor’s Contractor Cost Data (CCD) reports (DD Forms 1921, 1921-1, 1921-2, and 1921-3) to the contract and to the contractor’s books and records and to evaluate the reasonableness of the contractor’s estimates at completion (EAC). Use those sections of the audit program appropriate for CCD reports required by the contract. The program steps should be tailored, as appropriate, and reflect an understanding between the auditor and supervisor as to the scope required to meet auditing standards and objectives for the current assignment.</p>		
References		
<ol style="list-style-type: none"> 1. CAM 11-400 – Audits of Contractor Cost Data (CCD) Reporting 2. CAM 10-1200 – Audit Reports on Other Areas 3. DoDM 5000.04-M-1 – Cost and Software Data Reporting (CSDR) Manual (located at the CSDR homepage at http://dcarc.pae.osd.mil/Policy) 4. DoDI 5000.02 – Operation of the Defense Acquisition System 		

B-1	Preliminary Steps	W/P Reference
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	<ol style="list-style-type: none"> 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”. 	
	<ol style="list-style-type: none"> 2. Contact the cognizant administrative contracting officer and Defense Cost and Resource Center (DCARC) 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 administrative contracting officer, the auditor should perform the procedures addressed in CAM 2- 	

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<p>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 administrative 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. Review permanent files and prior audit files for background information and any audit leads or prior findings that would impact the current audit.</p>	
<p>5. Understanding and Evaluating the Contractor's Internal Control Structure</p>	
<p>Obtain and document an understanding the contractor's assertion and its processes for developing the assertion using the framework on WP B-2. Obtain and document an understanding of the underlying processes related to the specific assertion. A major portion of this understanding may be obtained during a walk-through of the contractor's assertion.</p>	
<p>6. Determine whether the contractor utilizes its Earned Value Management System (EVMS) to accumulate data and prepare its CCD reports. Where applicable, consider the results of any EVM surveillance audits in determining the scope of the CCD reports audit.</p>	
<p>7. Review the CSDR validation memorandums which are forwarded directly to the cognizant FAO by the DCARC. Review the memorandums to determine if there are significant errors related to the CCDRs that require follow up.</p>	

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<p>8. 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 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>9. Brief the contract(s), including the Contract Data Requirements List (DD Form 1423-1) and the approved contract CSDR plan to determine the specific CCD Report requirements that have been incorporated into the contract(s). If the contract does not include the approved contract CSDR plan, contact the DCARC to obtain a copy of the approved contract CSDR plan.</p>	
<p>10. Perform a preliminary review of the CCD reports to determine whether the contractor has complied with the contract, including the approved contract CSDR plan, and Data Item Descriptions (DIDs) requirements regarding timing of submittal, which reports to submit, and format for the required reports.</p>	

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11. Determine if a technical evaluation of the contractor's reported incurred cost or estimate at completion is required. For example, a technical evaluation may be required to analyze the reported classification of recurring and nonrecurring costs, classification of cost by functional area, calculation of equivalent units, or the contractor's estimate at completion. If required, request assistance and coordinate with the contracting officer to determine whether the results will be available for incorporation into the audit.	
12. If there are any subcontract costs included in the contractor's CCD reports, determine the status of the subcontractor(s) in terms of CCD reporting in order to identify the source of subcontract cost data and identify the potential need for assist audit. Subcontractor reporting status may be classified as follows:	
<ul style="list-style-type: none"> • Reporting - provides CCD reports to the prime contractor; 	
<ul style="list-style-type: none"> • Direct report - provides CCD reports directly to the DCARC; or 	
<ul style="list-style-type: none"> • Non-reporting - no CCD reporting requirement 	
13. Arrange for and conduct an entrance conference with the contractor representative(s) responsible for CCD reports (CAM 11-408c). (Note: The DCARC and the ACO should be invited to the entrance conference; however, the auditor should not delay the entrance conference based on the availability of the DCARC/ACO representative.)	
14. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
15. Summarize the results of the risk assessment and preliminary audit steps, ensure detailed audit steps have been appropriately tailored and clearly identify the planned scope of audit.	

C-1	Cost Data Summary Report - DD Form 1921	W/P Reference
Version 3.6, dated June 2012		
1.	Reconcile the amounts reported as total incurred cost to date to the contractor's job cost ledger or other relevant accounting data.	
2.	Verify the contractor has complied with the instructions in appropriate version of the DID (DI-FNCL-81565) pertaining to reporting of recurring and non-recurring costs.	
3.	Entries for common data elements (i.e. metadata, quantities, dollars and hours) used across the DD 1921 series of reports for a specific contract must agree as appropriate.	

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4. If the contractor's accounting system accumulates incurred costs by recurring and nonrecurring, trace the amounts to the accounting system. Verify to source documentation to determine the appropriateness of the contractor's classification of costs as recurring or nonrecurring. Request technical assistance, as necessary.	
5. If the contractor's accounting system does not accumulate cost by recurring and nonrecurring:	
a. Verify the reported split between recurring and nonrecurring to the contractor's supporting documentation.	
b. Ensure the contractor has estimated the split between recurring and nonrecurring cost in accordance with its established policies and procedures and the contract specific WBS dictionary, as applicable.	
c. Test the contractor's estimates for reasonableness and appropriateness of the contractor's classification of costs as recurring or nonrecurring.	
d. Request technical assistance, as necessary.	
6. Verify the contractor has complied with the instructions in the DID pertaining to reporting of G&A and Profit/Fee.	
7. Evaluate the contractor's proper inclusion of subcontract costs, if applicable, for compliance with the requirements of the appropriate DID.	
8. Verify the reported subcontract price to the contractor's supporting documentation.	
9. Evaluate the contractor's EAC:	
a. Determine the contractor's methodology for preparing its EAC.	
b. Verify the EAC was prepared in accordance with the contractor's established policies and procedures.	
c. Verify the EAC reflects total estimated cost without regard for contract ceilings or contract price.	
d. Verify the EAC reflects the contractor's best estimate for performing currently authorized work plus any additional directed work for which execution or negotiation of amendments is pending. This also includes work not formally included in the contract price.	
e. Test the EAC amounts for reasonableness.	
f. Request technical assistance, as necessary.	
10. Verify the calculation of number of units to date and at completion per	

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the requirements of the DID.	
11. Compare the reported costs incurred to date and EAC to other contract management reports (i.e., CPR) covering the same time period as the CCD reports and have the contractor explain any significant differences. Verify significant contractor assertions to supporting documentation.	
12. Ensure all incurred and estimated costs have been included in the CCD Reports.	
13. Summarize the results of the review.	

D-1	Functional Cost-Hour Report - DD Form 1921-1	W/P Reference
Version 3.6, dated June 2012		
1.	The functional cost-hour report may be required for both the total contract and for selected WBS elements. Review the contract, including the approved contract CSDR plan, to determine the level of reporting required. Verify that the contractor has complied with the contractual requirement.	
2.	Verify that the contractor has complied with the instructions in the appropriate version of the DID (DI-FNCL-81566) pertaining to reporting of recurring and non-recurring costs.	
3.	Reconcile the total (recurring and nonrecurring) reported incurred cost to date and incurred labor hours to date to the contractor's job cost ledger or other relevant accounting data.	
4.	Reconcile the total reported quantities incurred cost to date and at completion to the amounts reported on Form 1921.	
5.	If the contractor's accounting system accumulates incurred costs and incurred labor hours by functional area, trace the amounts to the accounting system and verify to source documentation. Document the basis for determining that the contractor's system accurately classifies costs by functional area. Request technical assistance, as necessary.	
6.	If the contractor's accounting system does not accumulate cost and hours by functional area:	
a.	Verify the reported split by functional area to the contractor's supporting documentation.	
b.	Ensure the contractor has estimated the split between functional areas in accordance with its established policies and procedures.	
c.	Test the contractor's estimates for reasonableness and appropriateness of the contractor's classification of costs by	

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functional area. Request technical assistance, as necessary.	
7. If the contractor's accounting system accumulates incurred costs and labor hours by recurring and nonrecurring, trace the amounts to the accounting system. Verify to source documentation to determine the appropriateness of the contractor's classification of costs as recurring or nonrecurring. Request technical assistance, as necessary.	
8. If the contractor's accounting system does not accumulate cost and labor hours by recurring and nonrecurring:	
a. Verify the reported split between recurring and nonrecurring to the contractor's supporting documentation.	
b. Ensure the contractor has estimated the split between recurring and nonrecurring cost in accordance with its established policies and procedures and WBS dictionary, as applicable.	
c. Test the contractor's estimates for reasonableness and appropriateness of the contractor's classification of costs as recurring or nonrecurring. Request technical assistance, as necessary.	
9. Evaluate the contractor's inclusion of subcontract costs, if applicable, for compliance with the requirements of the appropriate DID.	
10. Verify the reported subcontract price to the contractor's supporting documentation.	
11. Evaluate the contractor's EAC:	
a. Determine the contractor's methodology for preparing its EAC.	
b. Verify the EAC was prepared in accordance with the contractor's established policies and procedures.	
c. Verify the EAC reflects total estimated cost without regard for contract ceilings or contract price.	
d. Verify the EAC reflects the contractor's best estimate for performing currently authorized work, plus any additional directed work for which execution or negotiation of amendments is pending. This also includes work not formally included in the contract price.	
e. Test the EAC amounts for reasonableness.	
f. Request technical assistance, as necessary.	
12. Compare the reported costs incurred to date and EAC to other contract management reports (i.e., CPR) covering the same time period as the CCD reports and have the contractor explain any significant differences.	

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13. Ensure all incurred and estimated costs have been included in the CCD Reports.	
14. Summarize the results of the review.	

E-1	Progress Curve Report - DD Form 1921-2	W/P Reference
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1.	The progress curve report shows work performed by the prime contractor at direct cost (i.e., before indirect costs and costs such as G&A, undistributed budget, management reserve, FCCOM, and profit/loss or fee). The total direct costs and hours should match the direct recurring and hour data reported on the DD Form 1921-1 for the same WBS element code. Review the contract, including the approved contract CSDR plan, to determine the specific reporting requirements.	
2.	Verify the contractor has complied with the instructions in the appropriate version of the DID (DI-FNCL-81567) pertaining to reporting of recurring costs.	
3.	If the contractor's accounting system accumulates incurred cost by unit or lot, trace the reported incurred hours and cost to the accounting system and verify to source documentation. Request technical assistance, as necessary.	
4.	If the contractor's accounting system does not accumulate cost by unit or lot:	
	a. Verify the estimated unit or lot cost and labor hours to the contractor's supporting documentation.	
	b. Ensure the contractor has estimated the unit or lot cost in accordance with its established policies and procedures.	
	c. Test the contractor's estimates for reasonableness. Request technical assistance, as necessary.	
5.	If the contractor's accounting system accumulates incurred costs by recurring and nonrecurring, trace the reported recurring amounts to the accounting system. Verify to source documentation to determine the appropriateness of the contractor's classification of costs as recurring. Request technical assistance, as necessary.	
6.	If the contractor's accounting system does not accumulate cost by recurring and nonrecurring:	
	a. Verify the reported recurring cost and labor hours to the contractor's supporting documentation.	
	b. Ensure the contractor has estimated the recurring cost in accordance with its established policies and procedures and the WBS dictionary, as applicable.	
	c. Test the contractor's estimates for reasonableness and	

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appropriateness of the contractor’s classification of costs as recurring. Request technical assistance, as necessary.	
7. If the contractor's accounting system accumulates incurred costs by functional area, trace the reported amounts to the accounting system and verify to source documentation. Document the basis for determining the contractor’s system accurately classifies costs by functional area. Request technical assistance, as necessary.	
8. If the contractor's accounting system does not accumulate cost and labor hours by functional area:	
a. Verify the split by functional area to the contractor's supporting documentation.	
b. Ensure the contractor has estimated the split between functional areas in accordance with its established policies and procedures.	
c. Test the contractor's estimates for reasonableness. Request technical assistance, as necessary.	
9. Evaluate the contractor's inclusion of subcontract costs, if applicable, for compliance with the requirements of the appropriate DID.	
10. Verify the reported subcontract price to the contractor's supporting documentation.	
11. Reconcile the sum of completed units costs and work in progress columns to the amounts reported as incurred to date recurring cost for the reporting element on Form 1921, if applicable. Trace reconciling items to supporting documentation. Have the contractor explain any significant variances. Verify significant contractor assertions to supporting documentation.	
12. Ensure all incurred recurring costs have been included in the CCD Reports.	
13. Summarize the results of the review.	

F-1	Contractor Business Data Report - DD Form 1921-3	W/P Reference
Version 3.6, dated June 2012		
1.	Review for compliance with reporting due dates contained in the appropriate DID (DI-FNCL-81765). Verify the contractor has complied with the instructions in the DID pertaining to reporting data in Sections A and B for the Prior Year, Current Year and Future Years.	
2.	Reconcile the reported actual direct costs/workers/hours data in Sections A and B for the Prior Year and Current Year to the contractor's job cost ledger or other relevant supporting documentation.	
3.	Review the estimated costs and other data in Sections A and B for the Future Years, at least three years, and compare with the latest Forward Pricing Rate data to ensure consistency in approach and methodology.	

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Verify the data to the contractor’s supporting documentation.	
4. Review the contractor’s methodology for splitting the data by functional area in Sections A and B, test the contractor’s split for reasonableness and appropriateness and verify to the contractor’s supporting documentation.	
5. Review the contractor’s methodology for determining the equivalent units in Section A, to determine if it is analytically based, consistently applied over time, and produces a reasonably accurate and reliable calculation for estimating purposes. Verify the equivalent units to the contractor’s supporting documentation.	
6. Review the contractor’s methodology for developing the information reported on page 2 for reasonableness and appropriateness. Verify to the contractor’s supporting documentation.	
7. Compare the reported actual costs incurred in the Prior Year and Current Year to other contract management reports (i.e., CPR) covering the same time period as the CCD reports and have the contractor explain any significant differences. Verify significant contractor assertions to supporting documentation.	
8. Ensure all incurred and estimated costs have been included in the CCD Reports.	
9. Summarize the results of the review.	

A-1	Concluding Steps	W/P Reference
Version 3.6, dated June 2012		
1. Summary Steps		
	a. Summarize the results of the review.	
	b. Discuss audit findings with the contractor and contractor officer to ensure all relevant fact are known and understood.	
	c. Prepare a draft report in accordance with CAM 10-1200 and 11-409. Significant errors noted in detailed report data (e.g. specific WBS element, functional category) should be reported even if the total cost reported is accurate.	
	d. Obtain supervisory and management review of audit findings and draft report prior to exit conference.	
	e. Conduct an exit conference with the contractor in accordance with CAM 4-304.	
	f. Finalize the audit report incorporating the contractor’s response, if applicable, and audit rejoinder.	

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g. Update the permanent file in accordance with CAM 4-405.1b (MAAR #3).	
h. Document whether fraud indicators were encountered during the audit. If so, consider whether a Form 2000 is warranted.	