

Master Document – Audit Program

Activity Code 17910		Contract Audit Closing Statements for DoD Commercial Time-and-Materials (T&M)/Labor-Hour (LH) Contracts
Version 1.2, dated June 2012		
B-1	Planning Considerations	
Purpose and Scope		
To determine the amounts properly payable under the contractor’s DoD Commercial T&M and LH contracts/subcontracts. The acceptability of final costs under a commercial T&M/LH contract is determined based on the terms and conditions of the contract and are not subject to the provisions in FAR Part 31.2 or Cost Accounting Standards.		
Reference		
FAR 52.212-4 and Alternate I - <i>Contract Terms and Conditions – Commercial Items</i>		

B-1	Preliminary Steps	W/P Reference
Version 1.2, dated June 2012		
	1. Review the open MRD’s for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for “MRDs, AGMs, & AMGMs”	
	2. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.	
	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	

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<p>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 the permanent files and prior related audits and make any needed adjustments to this audit program based on this review</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. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor's environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team's understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See "Principal Sources of Fraud Indicators" below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc. • CAM Figure 4-7-3. 	

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(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)	
7. Conduct an entrance conference with responsible contractor personnel.	
8. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
9. Using the information obtained in the above steps, prepare an initial risk assessment to determine the scope of the audit (W/P B).	

C-1	Evaluation of Final Voucher and Closing Documents	W/P Reference
Version 1.2, dated June 2012		
1.	Upon receipt of contractor’s final voucher and closing documents ascertain that the closing documents are properly prepared:	
a.	Final voucher is marked as “Final” or “Completion.”	
b.	The amount on the final voucher is supported by details of the properly payable amounts.	
c.	Final voucher cumulative amount is consistent with the amount on the release document.	
d.	Cumulative claimed amounts are within the contract ceiling.	
2.	Review the contract brief (CAM 3-202) or copy of the contract for special terms and conditions requiring compliance testing during this audit. Adjust the audit program accordingly.	
3.	Reconcile contractor’s claimed hours, material costs, and other direct cost (ODC) to contractor’s job cost ledger or other accounting records. Include subcontract and interdivisional effort.	
4.	Verify claimed hourly rates to the contractual labor rates.	
5.	Verify that the total labor hours by category multiplied by the contractual hourly billing rate equals the total labor amounts claimed by category.	
6.	Selectively trace billed labor hours to supporting labor distributions and timekeeping records. Include testing of subcontract/ interdivisional hours to source documents. The extent of this effort should be based on the results of any floor checks or related audits performed at this contractor.	
7.	Selectively verify that employee hours billed meet the labor qualification requirements in the contract - FAR 52.212-4, Alternate I(i)(1)(i)(B).	

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8. Selectively verify that material, subcontract and ODC are supported by contractor payment documentation (e.g., invoices, purchase agreements). FAR 52.212-4, Alternate I(e)(1)(iii), defines material costs as including subcontracts for supplies or services for which there is not a labor category specified in the contract.	
9. Verify that any ODC claimed has been authorized by contract terms (i.e., listed by type in the contract) - FAR 52.212-4, Alternate I(i)(1)(ii)(D)(1).	
10. Verify that any indirect cost is specified by amount in the contract - FAR 52.212-4, Alternate I(i)(1)(ii)(D)(2).	

A-1	Concluding Steps	W/P Reference
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1.	Prepare draft audit report.	
2.	If over-recovery of cost exists, either	
a.	request copy of check which refunded overpayment; or	
b.	request that a check and copy of final voucher be furnished directly to the Paying Office.	
3.	Update permanent file.	