

Master Document – Audit Program

Activity Code 19410		Compliance Audit CAS 410 Offsite Locations
Version 1.2, dated June 2012		
B-1	Planning Considerations	
Purpose and Scope		
<p>1. The purpose of this audit of CAS 410 compliance is to determine whether a specific contractor offsite location meets the criteria to be considered a CAS segment as defined by 48 CFR 9904.410-30(a)(7). For purposes of the audit, an offsite location is defined as a separate geographic location that is not considered by the contractor to be a segment for CAS purposes, but that is part of another CAS segment.</p>		
<p>2. The audit steps in the program should reflect a documented understanding between the auditor, the technical specialist and the supervisor as to the scope required to comply in an efficient and effective manner with generally accepted government auditing standards and DCAA objectives. The program steps are intended as general guidance and should be tailored as determined by audit risk.</p>		

B-1	Preliminary Steps	W/P Reference
Version 1.2, dated June 2012		
1. Research and Planning		
	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”	
	b. Read and become familiar with the criteria for a business segment described in CAS 410.	
	c. Examine the FAO permanent file data and prior relevant audit work packages to determine what data are available and any impact on this audit. Document results.	
	d. If appropriate, coordinate with the FAO technical specialist, and/or regional specialist on matters of interpretation and policy.	
	e. 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	

Master Document – Audit Program

<p>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.</p>	
<p>f. Electronically transmit an acknowledgement/notification to the ACO/CAFO 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>2. Entrance Conference and Preparation</p>	
<p>Arrange and conduct an entrance conference with particular emphasis on:</p>	
<p>a. The contractor’s organizational structure.</p>	
<p>b. Any new developments with G&A implications, e.g., joint ventures, teaming arrangements, partnerships, etc. (See CAM 7-1800).</p>	
<p>3. Risk Assessment</p>	
<p>a. Examine the ICQ or relevant ICAPS (whichever is applicable) of the segment to which the offsite location reports to obtain an understanding of the contractor’s overall control environment adequacy as it pertains to the offsite location. Identify and determine the impact on the scope of this audit of any reported internal control system deficiencies. Document results.</p>	
<p>b. 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>c. 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</p>	

Master Document – Audit Program

<p>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. <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
<p>d. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	

C-1	Evaluation of the Contractor’s Organization and Operations	W/P Reference
Version 1.2, dated June 2012		
1.	Obtain current organization charts, descriptions of operations, department descriptions, and other data describing the functions, activities and responsibilities of the offsite location.	

Master Document – Audit Program

<p>2. Using the data gathered in Step 1 and the responses to the following steps, determine if the contractor has correctly determined that the offsite location is not a segment as defined in CAS 410.30(a)(7). Determine whether the offsite location possesses sufficient attributes of a segment.</p> <p>Evaluate the applicability of the following key attributes to this offsite location. <i>[For some attributes, we are suggesting potential sources available to the FAO. These sources are not intended to be all inclusive or required].</i></p>	
<p>(1) Determine if this location is responsible for submitting a Disclosure Statement.</p> <p><i>[Examples of consideration for this determination include: does this location have its own rates; if so, are they separately disclosed.]</i></p>	
<p>(2) Determine if this location has profit or loss responsibility.</p> <p><i>[Examples of sources for this information include external financial statements, internal financial statements and management reports, executive performance/bonus plans, and policies and procedures for handling financial problems at the offsite location.]</i></p>	
<p>(3) Determine if this location has responsibility for a G&A pool.</p> <p><i>[Examples of sources for this information include D/S, (particularly continuation sheets for Part IV), forward pricing proposals, incurred cost submissions, and adjusting journal entries transferring offsite location G&A expenses to other entities. Determine whether personnel located at the offsite location perform G&A type functions for multiple locations or for this offsite location only.]</i></p>	
<p>(4) Determine whether management personnel at this location are responsible for the overall management and operation of the location.</p> <p><i>[Examples of sources for this information include the accumulation of line management personnel salaries at the location or cost allocations of line management salaries from another location, segment or home office based on specific identification of work performed at this location.]</i></p>	
<p>(5) Determine whether this location reports to a home office, intermediate home office or other segment.</p> <p><i>[Examples of sources for this information include organization charts, adjusting entries allocating costs from other entities or locations, and subsequent allocation of those costs to final cost</i></p>	

Master Document – Audit Program

<i>objectives at this location.]</i>	
(6) Determine whether this location submits and certifies any incurred cost submission.	
(7) Determine whether this location allocates G&A expenses to other contractor business units or locations.	
(8) Determine whether this location is fully or partially responsible for pricing contracts and submitting price proposals in response to RFPs. <i>[Examples of sources for this information include forward pricing rate or pricing proposals and B&P project records.]</i>	
(9) Determine whether this location is identified as the cognizant contractor organization in any contract documents.	
3. Document any additional information that should be considered in determining whether this offsite location should be classified as a segment for CAS purposes.	

D-1	Review of ROM	W/P Reference
Version 1.2, dated June 2012		
1.	If the location should be considered a segment, prepare a rough order magnitude (ROM) analysis to determine whether the contractor’s failure to identify the location as a CAS segment has resulted or may result in a significant misallocation of costs to final cost objectives of this location or other locations.	
a.	Examine the ICQ or relevant ICAPS (whichever is applicable), to obtain information regarding the contractors internal control systems, identify any known outstanding system deficiencies, and assess its impact in calculating the ROM. Document results.	
b.	Tailor the method used to prepare a ROM to meet individual location circumstances. The ROM should include any offsetting effects at other business units or locations. Document the method used to prepare the ROM, and the conclusion as to whether there is potentially a material misallocation of costs as a result of the contractor’s practices. <i>[For example: Determine the impact on contracts if G&A was to be accumulated at this location and allocated to cost objectives. Compare this result to the G&A allocations currently made to the same cost objectives. Consideration must also be given to the impact on cost objectives of other locations/business units affected by this</i>	

Master Document – Audit Program

<i>reallocation.]</i>	
-----------------------	--

A-1	Concluding Steps	W/P Reference
Version 1.2, dated June 2012		
1.	Summarize the results of audit.	
2.	Discuss the audit results with the technical specialist, supervisor and FAO Manager.	
3.	Coordinate audit results with the FAO that requested this assist audit and with the CAC, CHOA, or GAC network (see CAM 8-302.4 and 8-302.6).	
4.	Prepare a draft assist audit report which clearly identifies the scope of audit (i.e. whether or not the offsite location is a segment.)	
	a. If it is determined that the offsite location should not be considered a segment, prepare a draft audit.	
	b. If it is determined that the offsite location should be considered a segment, open an assignment under activity code 19200 and close this 19410 compliance assignment with an MFR.	
5.	If an internal control system deficiency is detected during the course of this audit, draft a flash internal control report and submit it to the contractor for comment in accordance with CAM 10-413.	
6.	Conduct an exit conference with the contractor to confirm factual information used in the audit.	
7.	Finalize the assist audit report. <i>The FAO cognizant of the segment will consolidate all of the offsite audit reports and provide a single draft report to the contractor for comment.</i>	
8.	Update the permanent files. <i>Ensure that a copy of DMIS Report No. CAS 3 entitled “CAS Compliance Testing (Activity Code 194XX)” is included in the permanent file after the assignment as been closed in DMIS.</i>	