

Master Document – Audit Program

Activity Code 28500	Single Process Initiative
Version 2.4, dated June 2012	
B-1	Planning Considerations
Purpose and Scope	
The purpose of the evaluation is to:	
<ul style="list-style-type: none"> • provide procedures to evaluate whether the contractor's SPI cost benefit analysis provides a reasonable general dollar magnitude estimate of implementation costs and related savings, and • ensure that the impact of the approved SPI process change is reflected in the contractor's estimating system and forward pricing. 	
The evaluation will be an agreed-upon procedures engagement performed in accordance with applicable Government Auditing Standards and the AICPA Professional Standards.	
References	
<ol style="list-style-type: none"> 1. CAM 1-804, “Management Councils, Single Process Initiative (SPI), and Cost Benefit Analysis” 2. DCMA Guidebook, Single Process Initiative available at http://guidebook.dcmamil/20/guidebook_process.htm 3. DCMA Single Process Initiative Concept Paper Guidebook available at http://guidebook.dcmamil/onebook/20/SPIguidebook-preparing_concept_papers.htm 4. CAM 14-1000 Application of Agreed-Up On Procedures 5. CAM 10-1004 – Report Narrative (Agreed-Up On Procedures) 	

B-1	Preliminary Steps	WP Reference
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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		

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for “MRDs, AGMs, & AMGMs”	
<p>2. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.</p>	
<p>3. Electronically transmit an acknowledgement/notification to the ACO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
<p>4. Assess the concept paper submitted by the contractor to gain an understanding of the proposed change.</p>	
<p>5. If a Government technical review has not already been initiated, request technical support if needed. If the technical review has been requested, contact the Government technical representative to determine their areas of review and if their results will be available to incorporate into the report.</p>	
<p>6. 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>7. Look at permanent files and prior evaluations to obtain background information.</p>	
<p>8. Hold an entrance conference.</p>	
<p>9. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	

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<p>10. 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. <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
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C-1	Detailed Procedures	WP Reference
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1.	Perform the steps agreed upon with the ACO (Step B-1), which should include the following (CAM 1-804.3) to determine if the contractor’s cost-benefit analysis is a reasonable general dollar magnitude estimate of implementation costs and related savings:	

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a. Determine if the cost-benefit analysis is adequate. Attributes of an adequate cost-benefit analysis are as follows:	
(1) The cost-benefit analysis should include an analysis of: (a) Implementation costs, (b) Estimated savings on existing contracts, and (c) Estimated annual future savings to reflect in forward pricing.	
(2) The annual future savings should be forecasted for the period covered by the contractor's indirect expense rate forecast (usually five years).	
(3) The cost-benefit analysis should identify both direct and indirect implementation costs and savings. Estimated implementation costs and savings should be broken down by the contractor's normal direct and indirect costs elements.	
(4) The cost-benefit analysis should include the rationale to support significant estimates of implementation costs and savings.	
(5) The cost-benefit analysis should identify recurring versus non-recurring implementation costs and savings.	
(6) All applicable existing contracts should be considered in the analysis.	
b. If essential cost-benefit analysis elements are missing, then conduct fact-finding with the contractor to obtain the information or the reasons why the information is not relevant. If the fact-finding does not result in obtaining the necessary information, request, in writing, the assistance of the ACO.	
c. Evaluate the contractor's estimating rationale for the implementation costs and savings to determine its reasonableness.	
d. Evaluate the supporting computations to determine their accuracy.	
2. Perform the following steps to ensure that the impact of the approved process change is reflected in the contractor's estimating system and forward pricing.	
a. Determine whether the contractor has adequate internal controls and estimating system procedures for incorporating the future savings associated with Management Council approved process changes into its forward pricing.	
b. If the contractor does not incorporate the impact of approved process changes into forward pricing and the impact is significant, consider issuing an estimating system deficiency flash report (see	

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CAM 9-310).	
c. Prepare audit lead sheets to document the estimated forward pricing impact of the approved process change and any estimating system deficiencies for use in future forward pricing and estimating system audits.	
d. Perform other procedures as requested.	

A-1	Concluding Steps	WP Reference
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1.	Summarize results of applying agreed-upon procedures.	
2.	If the estimating system controls are inadequate to assure incorporation of the change, schedule an ICAPS examination of affected areas.	
3.	Discuss the results with your supervisor.	
4.	Conduct exit conference with contractor and document results.	
5.	Draft the report following the guidance in CAM 10-1000.	