

Master Document – Audit Program

Activity Code 10110	A-133 Audit
Version 4.7, dated November 2015	
B-1	Planning Considerations
	Audit Specific Independence Determination
	<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 34) prior to starting any work on this assignment.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g. FAO technical specialist) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p>
	<p>Purpose and Scope: This audit program should be used for single audits conducted under OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.” The program steps should be tailored, as appropriate. For audit areas with multiple sections, the auditor is permitted to remove the sections that are not relevant to the review based on the documented risk assessment. The audit program should reflect an understanding between the auditors and supervision as to the scope required.</p>
	<p>1. An OMB Circular A-133 audit, otherwise known as a single audit, is an entity-wide audit consisting of two main parts: an audit of the basic financial statements and an audit of the entity’s major Federal award programs. The audit of the major programs includes (a) gaining an understanding of and testing the internal controls and (b) a compliance audit governing laws and regulations and the provisions of contracts and grants of the Federal award programs. Circular A-133 requires the auditor to provide an opinion on whether the auditee complied with laws, regulations and the provisions of contracts or grants that have a direct and material effect on each of its major programs.</p>
	<p>2. When DCAA does participate in an A-133 audit, it is on a coordinated basis. That is, the participants (i.e., DCAA, Independent Public Accountant (IPA), etc.) discuss and compare their individual audit/review requirements for the fiscal year and identify areas of duplication. The understanding of the individual parties’ audit responsibilities should be documented in a coordinated audit matrix.</p>
	<p>3. It is important to determine the nature and extent of your audit. In some cases the contractor may elect to have their IPAs perform the entire A-133 audit. <i>In such cases, you are <u>not</u> performing an A-133 audit.</i> If an A-133 audit has already been issued, coordinate with the ACO and supervisor to determine what additional effort, if any, is necessary. Any additional audit planning and execution should consider the extent to which reliance can be placed on the work already performed by the auditee’s IPA or internal auditors under the A-133 requirements. Any additional audits or subsequent effort should be planned and performed in such a way as to build upon work already performed by other auditors. See CAM 13-703.4</p>

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<p>Planning Considerations</p> <p>The auditor is required to test internal control over major programs to ensure that controls are designed and operating effectively, as well as testing compliance with the requirements of Federal programs for compliance with laws, regulations, and provisions of contracts and grants. Although the purpose of these tests is different, both may be achieved simultaneously through dual-purpose tests of details. That is, the auditor may design a sample that will be used for dual purposes: testing the control to assess control risk and testing whether the recorded monetary amount of transactions is correct. The auditor should use dual-purpose transaction testing when developing their sampling plan. However, auditors should not rely on tests of controls performed in prior audits as support for the basis of opinion as part of this compliance audit. The auditor is not required to plan and perform tests of internal controls when they are likely to be ineffective in preventing or detecting noncompliance with the requirements of major programs. In this case the auditor should report a significant deficiency, including whether any such deficiency is a material weakness, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of the ineffective internal control.</p>
<p>Planning Considerations</p> <p>Prior to commencing the audit, review guidance that may impact the audit and adjust audit scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training materials, guidebooks, etc. available on the DCAA intranet.</p>

B-1	Preliminary Steps	W/P Reference
	Version 4.7, dated November 2015	
	1. Evaluate the contractor's indirect cost rate proposal for completeness. For those entities subject to FAR Subpart 42.7 – Indirect Cost Rates, the proposal submission must be accompanied by a Certificate of Final Indirect Costs. All proposal submissions should include sufficient schedules and detail (e.g. pools, bases, and rates, account balances within pools, and identification of grants, contracts, subcontracts, and subrecipients).	
	2. Complete the Coordinated Audit Matrix (Section C-1) to identify which audit participant will be responsible for reporting on the auditee's compliance requirements.	
	3. 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.	
	4. Electronically transmit an acknowledgement/notification to the	

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<p>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>5. Determine whether the auditee has classified Federal awards. Coordinate with the Field Detachment FAO, the auditee, and if applicable, the Independent Public Accountant (IPA) to identify areas of audit coverage. Document the results of the coordination of audit coverage on the FAO/FD Coordination Matrix (Section C-1).</p>	
<p>6. Hold an entrance conference with the auditee. Follow up with contractor management on:</p> <ul style="list-style-type: none"> a. on corrective actions that address previous DCAA audit findings and recommendations; b. other studies or audits that impact the subject matter under audit. 	
<p>7. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>8. Obtain the auditee’s Summary Schedule of Prior Audit Findings so that related follow-up actions on previously reported deficiencies can be evaluated.</p>	
<p>9. Meet with, review, and consider the internal audit department’s annual audit plan and completed audits.</p>	
<p>10. Review the permanent file and previous A-133 audit for audit leads/findings.</p>	
<p>11. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures:</p> <ul style="list-style-type: none"> a. During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions. b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.) 	
<p>12. Review permanent file to determine if the contractor has previously</p>	

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provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)

- a. During the entrance conference:
 - Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.
 - Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result.
- b. If the review of the perm file or the contractor identifies relevant internal audits:
 - Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment.
 - Document the results of the determination in writing.
 - If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.
 - If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports.
 - The request, issued by the CAC, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers.
- c. If the review of the perm file or the contractor identifies relevant other audits or studies:
 - Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).
 - Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.

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<p>d. Document the results of the inquiries including the response received from contractor’s for any request for access to internal audit reports. (If access was not granted this should include the contractor’s rationale or justification for not granting access).</p> <p>e. Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit).</p>	
<p>13. Review the Board of Directors' and audit committee minutes and identify any items requiring follow-up.</p>	
<p>14. Understanding and Evaluating the Entity’s Internal Control Structure.</p>	
<p>a. If applicable, review the external auditor's internal control letter and/or the “internal control report” prepared by management that accompanies the financial statements and identify any items requiring follow-up.</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>15. Review and document on W/P B-3 the assessment of the need for technical assistance/assist audits.</p>	
<p>16. Evaluate the entity’s grants/contract briefings.</p> <p>a. Ensure that all auditable grants/contracts awarded during the year have been briefed. Any significant grants/contracts that the contractor has not briefed should be briefed as part of this audit. Identify the applicable regulations that pertain to the contracts, grants, and agreements under audit and determine the impact on the audit procedures to be performed.</p> <p>b. Identify any non-DoD grants/contracts subject to audit and verify the audit effort is reimbursable (i.e., approval to bill our audit effort has been obtained from the customer where necessary). If not, adjust the audit scope and auditable dollars accordingly and coordinate with the auditee and IPA, if necessary.</p>	
<p>17. Review the OMB A-133 Compliance Supplement in effect for the auditee’s fiscal year being audited. Significant changes from the previous year will be listed in Appendix V of the Compliance Supplement.</p>	
<p>18. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be</p>	

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<p>documented in the working papers.</p>	
<p>19. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential noncompliances, due to error or fraud, that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none">• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),• relevant aspects of the contractor and its environment,• risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements),• other known risk factors,• the audit team’s understanding of relevant internal controls,• inquiries to the contractor regarding its fraud management plans and controls <p>Document fraud risk factor/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If Fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none">• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (http://gao.gov/products/GAO-12-331G)• AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf)• DoDIG’s Contract Audit Fraud Scenarios and Resources website (http://www.dodig.mil/resources/fraud/resources.html)	

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(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)	
20. Major Program Determination. Identify the dollar threshold used to distinguish between Type A and Type B programs in W/P B. (The calculation is performed in W/P B-4).	
21. Determine whether the auditee is considered a low risk auditee using the low risk auditee worksheet in W/P B-5. This determination is summarized in W/P B.	
22. Summarize the results of the risk assessment and preliminary audit steps and identify the planned scope of audit in Section 9 of W/P B.	

C-1	Audit Coordination	W/P Reference
Version 4.7, dated November 2015		
1.	Complete the audit coordination matrix to ensure that all internal controls and compliance areas that DCAA is taking responsibility for are identified and agreed to among the audit participants.	
2.	If applicable, complete the coordination of audit coverage on the FAO/FD Coordination Matrix.	

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C-2		Audit Coordination Matrix				
Version 4.7, dated November 2015						
Types of Major Program Compliance Requirements (Refer to Compliance Supplement, Parts 2&3)	Compliance Requirement is Applicable (Y or N/A)	Compliance Requirement Has Material Effect on Major Program (Y or N)	Organization Accepting Responsibility for Providing Audit and Auditor Accepting Responsibility for Providing Reporting Coverage (Review Internal Control and/or Compliance Audit)			Additional Comments
			Independent Public Accountant	DCAA	Other (Identify organization)	
A. Activities Allowed or Unallowed						
B. Allowable Costs/Cost Principles						
C. Cash Management						
D. Davis-Bacon Act						
E. Eligibility (The R & D cluster of programs normally does not have activity subject to this compliance requirement).						
F. Equipment and Real Property Management						
G. Matching, Level of Effort, Earmarking (Level of Effort and Earmarking are not applicable to the R&D cluster of programs).						
H. Period of Availability of Federal Funds						
I. Procurement and Suspension and Debarment						

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C-2		Audit Coordination Matrix				
Version 4.7, dated November 2015						
Types of Major Program Compliance Requirements (Refer to Compliance Supplement, Parts 2&3)	Compliance Requirement is Applicable (Y or N/A)	Compliance Requirement Has Material Effect on Major Program (Y or N)	Organization Accepting Responsibility for Providing Audit and Auditor Accepting Responsibility for Providing Reporting Coverage (Review Internal Control and/or Compliance Audit)			Additional Comments
			Independent Public Accountant	DCAA	Other (Identify organization)	
J. Program Income						
K. Real Property Acquisition and Relocation Assistance						
L. Reporting						
M. Subrecipient Monitoring						
N. Special Tests & Provisions						
Opinion on Schedule of Expenditures of Federal Awards						
Completion of Data Collection Form						
Other (list as applicable)						

Y: Denotes requirement is applicable and will be included in audit scope.

N/A: Denotes requirement is either not applicable or is applicable but will not be included within this audit because (provide explanation in Additional Comments – for example, the specific requirement does not have a direct and material impact on the major program, see working paper ____ for documentation supporting this assessment).

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C-2		Audit Coordination Matrix				
Version 4.7, dated November 2015						
Types of Major Program Compliance Requirements (Refer to Compliance Supplement, Parts 2&3)	Compliance Requirement is Applicable (Y or N/A)	Compliance Requirement Has Material Effect on Major Program (Y or N)	Organization Accepting Responsibility for Providing Audit and Auditor Accepting Responsibility for Providing Reporting Coverage (Review Internal Control and/or Compliance Audit)			Additional Comments
			Independent Public Accountant	DCAA	Other (Identify organization)	

Point of Contact:

Auditee

Independent Public Accountant

DCAA

Other

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OMB Circular A-133 Compliance Requirements	Applicable to Entity (Yes or No) (If not applicable – no additional documentat ion req'd)	If applicable, could the compliance requirement have a direct & material effect on the Major program (Yes or No) (1)		Comments	Audit Coverage by FAO (2)	Audit Coverage by Field Detachment
		FAO	FD			
A. Activities Allowed/ Unallowed						
B. Allowable Costs/Cost Principles						
C. Cash Management						
D. Davis Bacon Act						
E. Eligibility						
F. Equipment & Real Property Management						
G. Matching, Level of Effort*, Earmarking*						
H. Period of Availability of Federal Funds						
I. Procurement Suspension & Debarment						
J. Program Income						
K. Real Property Acquisition Relocation Assistance						
L. Reporting - Financial Performance* Special*						
M. Subrecipient Monitoring						

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OMB Circular A-133 Compliance Requirements	Applicable to Entity (Yes or No) (If not applicable – no additional documentation req'd)	If applicable, could the compliance requirement have a direct & material effect on the Major program (Yes or No) (1)		Comments	Audit Coverage by FAO (2)	Audit Coverage by Field Detachment
		FAO	FD			
N. Special Tests & Provisions						

*Not applicable to the research and development program per OMB Circular A-133 Compliance Supplement, Part 5.

(1) A-133 requires testing of internal control over compliance and substantive tests of compliance **only** on those requirements that could have a direct and material effect on the program.

(2) If not performed by the DCAA FAO or FD, coordinate with IPA to ensure audit coverage.

Point of Contact:

DCAA Regional FAO _____

DCAA Field Detachment _____

Auditee _____

Independent Public Accountant _____

Other _____

D-1	Schedule Of Expenditures Of Federal Awards (SEFA)	W/P Reference
Version 4.7, dated November 2015		
1. Request the auditee to reconcile the incurred cost submission to the SEFA. Review the auditee's reconciliation of the incurred cost submission to ensure all Federal awards have been included and coordinate with the auditee and IPA, if necessary.		

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2. Document the audit conclusion on W/P D.	
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E-1	Activities Allowed Or Unallowed – Compliance Requirement A
Version 4.7, dated November 2015	
Note: The audit steps for reviewing the auditee’s internal controls relating to Compliance Requirement A also apply to Compliance Requirement B – Allowable Costs/Cost Principles. Testing of compliance for both requirements should be performed within the steps below.	
Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.	
In obtaining and documenting the understanding of internal controls relating to Compliance Requirement A & B, the auditor should consider and rely on, to the extent possible, the audit effort performed under the Control Environment and Overall Accounting Controls Audit. Document your reliance. For the testing of internal controls and compliance testing. OMB Circular A-133 requires those tests be performed annually.	
Control Objectives: To provide reasonable assurance that Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles and award terms and conditions.	
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Activities Allowed/Unallowed (Requirement A) and Allowable Costs/Cost Principles (Requirement B)	
Control Environment. The auditor should obtain a sufficient understanding of the entity’s control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.	
1. There is an organizational sense of conducting operations ethically, as evidenced by a code of conduct or other verbal or written directive.	
2. If present, a governing Board has established an Audit Committee or equivalent that is responsible for engaging the auditor, receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed.	
3. Management’s positive responsiveness to prior questioned costs and control recommendations.	
4. Management’s respect for and adherence to program compliance requirements.	
5. Key managers’ responsibilities are clearly defined.	
6. Key managers have adequate knowledge and experience to discharge their responsibilities.	
7. Staff is knowledgeable about compliance requirements and is responsible for communicating all instances of noncompliance to management.	
8. Management is committed to competence and ensures that staff receive adequate training to perform their duties.	
9. Management supports an adequate information and reporting system.	
10. Management sets reasonable budgets for Federal and non-Federal activities so that no incentive exists to miscode expenditures.	

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11. Management enforces appropriate penalties for misappropriation or misuse of funds.	
12. There is organization-wide cognizance of the need for separate identification of allowable Federal costs.	
13. Management provides personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures.	
<p>Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.</p>	
1. Program managers and staff understand and have identified key compliance objectives.	
2. The organizational structure supports the identification of risks of noncompliance: <ul style="list-style-type: none"> a. Key managers have been given responsibility to identify and communicate changes. b. Employees who require close supervision (e.g., inexperienced) are identified. c. Management has identified and assessed complex operations, programs, or projects. d. Management is aware of results of monitoring, audits, and reviews and considers related risk of noncompliance. 	
3. Processes are established to implement changes in program objectives and procedures.	
4. Management has a process for assessing risks resulting from changes to the cost accounting systems and has policies and procedures in place to reduce the risk to an acceptable level.	
5. Management has a sufficient understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a Federal program and not be detected.	
<p>Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. Consider the following in obtaining your understanding.</p>	
1. Operating policies and procedures are clearly written and communicated.	
2. Procedures are in place to implement changes in laws, regulations, guidance, and funding agreements affecting Federal awards.	
3. Management prohibits intervention or overriding established controls.	
4. Adequate segregation of duties exists between performance, review, and recordkeeping of a task.	
5. Computer and software program controls include such items as data entry controls, exception reporting, access controls, reviews of input and output data, along with computer general and security controls.	
6. Supervision of employees is commensurate with their level of competence.	
7. Personnel have adequate knowledge and experience to discharge their responsibilities.	
8. Equipment, inventories, cash, and other assets are physically secured,	

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periodically counted, and compared to recorded amounts.	
9. If present, a governing Board conducts regular meetings where financial information is reviewed and the results of program activities and accomplishments are discussed.	
10. Procedures are in place that provide reasonable assurance that the distribution of charges as direct and indirect costs to all Federal programs is consistent.	
11. Procedures provide for separate accountability for time charges and costs between Federal and non-Federal activities.	
12. Processes are in place to ensure timely updating of procedures for changes in activities allowed and the cost principles.	
13. When applicable, procedures provide for rechecking the accuracy of computations.	
14. Supporting documentation is compared to a list of allowable and unallowable expenditures.	
15. Adjustments to unallowable costs are made where appropriate, and follow-up action taken to determine the cause.	
16. Duties are adequately segregated between review and authorization of costs.	
17. Accountability for authorization is fixed in a responsible individual(s) who is knowledgeable of the requirements for determining activities allowed and allowable costs, including costs charged to direct and indirect cost centers, in accordance with Federal program agreements and applicable Governmental circulars pertaining to cost principles.	
Information and Communication. The auditor should develop a sufficient understanding of the entity's information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported related to the control objective. Consider the following in obtaining your understanding.	
1. The accounting system provides for separate identification of Federal and non-Federal transactions and allocation of transactions applicable to both.	
2. Adequate source documentation exists to support amounts and items reported.	
3. The recordkeeping system is established to ensure that accounting records and documentation retained for the time period required by applicable requirements; such as OMB Circular A-110 (§____.53) and the provisions of laws, regulations, contracts or grant agreements applicable to the program.	
4. Reports are provided timely to managers for review and appropriate action.	
5. Accurate information is accessible to those who need it.	
6. Reconciliations and reviews ensure accuracy of reports.	
7. Internal and external communication channels are established (e.g. staff meetings, bulletin boards, email, etc.)	
8. Employees' duties and control responsibilities are effectively communicated.	
9. Communication channels for staff to report suspected improprieties are	

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established.	
10. Actions are taken as a result of communications received.	
11. Communication channels are established between the pass-through entity and subrecipients.	
12. Reports, such as a comparison of budget to actual, are provided to appropriate management for review on a timely basis.	
13. There are adequate internal and external communication channels on activities and costs allowed.	
14. Training programs, both formal and informal, provide knowledge and skills necessary to determine activities and costs allowed.	
15. There is adequate interaction between management and staff regarding questionable costs.	
16. Grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars are available to staff responsible for determining activities allowed and allowable costs.	
Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities relevant to the control objective. Consider the following in obtaining your understanding.	
1. Ongoing monitoring is built-in through independent reconciliations, staff meeting feedback, rotating staff, supervisory review, and management review of reports.	
2. Periodic site visits are performed at decentralized locations (including subrecipients) to determine whether procedures are being followed.	
3. Follow-up on irregularities and deficiencies is performed to determine the cause. In addition, management takes appropriate follow-up action for significant identified problems or weaknesses in internal controls (including matters communicated by the auditors).	
4. Internal quality control reviews are performed.	
5. Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.	
6. Internal audit routinely tests for compliance with Federal requirements.	
7. If present, a governing Board reviews the results of all monitoring or audit reports and periodically assesses the adequacy of corrective action.	
8. Management periodically reviews supporting documentation of allowable cost information.	
9. Information from federal and other agencies flows to appropriate management personnel.	
10. Management compares budgeted to actual or prior year to current year costs and variances are investigated.	
11. Internal audits, either formal or informal, are performed.	
Detailed Audit Steps	
1. Document your understanding of the internal controls for each internal control component (i.e., control environment, risk assessment, information and communication, control procedures, and monitoring) over compliance for Compliance Requirements A and B. Consider the auditee’s policies and procedures and identify relevant controls providing	

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assurance that the compliance objectives are achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P E.	
3. Assess control risk to identify factors relevant to the design of substantive tests.	

Suggested Audit Steps for Reviewing the Auditee’s Compliance with Activities Allowed or Unallowed	
Audit Objective: Determine whether Federal awards were expended only for allowable activities.	
	W/P Reference
1. Identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contracts or grant agreements pertaining to the program.	
2. Select a sample of transactions and verify that the transaction was for an allowable activity.	
3. Summarize the results.	

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F-1	Allowable Cost Cost Principles – Compliance Requirement B	
Version 4.7, dated November 2015		
Suggested Audit Steps for Reviewing Compliance with Allowable Costs/Cost Principles		
The procedures are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances.		
Preliminary Steps		W/P Reference
1. Upon receipt, the entity's indirect cost rate proposal should have been evaluated for adequacy. If the submission was previously determined to be adequate and upon closer review is determined to be inadequate, coordination of the inadequacies should be immediately communicated to the contractor and cognizant ACO.		
2. MAAR 3: Obtain current organization charts. Compare to charts contained in the permanent file; identify any changes in organizational structure. Assess the impact on this audit.. Update the permanent file.		
3. If the entity has CAS-covered contracts, the auditor should consider entity compliance with the applicable CAS requirements and Disclosure Statement as part of their transaction testing steps.		
4. Evaluate any changes in procedures for charging direct/indirect labor (MAAR 7) and assess the impact on this audit.		
5. Reconciliations:		
a. MAAR 4: Evaluate the entity’s reconciliation of the submission to the financial statements. Check the notes to the financial statements for possible audit leads. Note unusual items for audit follow-up.		
b. MAAR 9: Review the entity’s reconciliation of payroll totals (dollar value and hours) with totals of related labor cost distribution records. The auditor should have the entity reconcile total salaries and wages to payroll tax returns (IRS Form 941) to ensure all labor has been accounted for and paid.		
c. MAAR 14: Check the entity's reconciliation of claimed base and pool amounts to the entity's cost accounting records and to totals of the detail accounts already reconciled.		
d. MAAR 15: Compare base and pool totals to prior year and budgetary amounts. Determine if the indirect rate structure used to accumulate actual costs is consistent with the indirect rate structure used to prepare forward pricing indirect rates for the same year.		
MAAR 15: Compare detail accounts within pools to prior years and budget to identify any changes in accounting practices or unexplained disproportionate changes in relative dollar value for follow-up.		
e. MAAR 19: Verify the accuracy of the entity's rate computations for		

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distributing indirect costs to grants/contracts.	
6. Other items to be evaluated:	
a. Determine if the entity uses its fiscal year as its cost accounting period.	
b. Calculate Government cost-type and T&M/FPI percentages of indirect expense bases using the schedule of direct costs by element.	
7. If a billing system audit was not performed in this CFY, test the entity’s reconciliation of booked to billed costs.	
a. Evaluate materiality of any overbilled amounts at both the total and individual contract level.	
b. If the overbilled amounts are considered to be material, discuss with the supervisor the need to set up a billing system audit.	
c. If the entity also performs as a subrecipient, specifically test some subcontracts to ensure that adjustment vouchers are submitted to the prime entity on a timely basis following the settlement of rates.	
Indirect Allocation Bases (MAAR 18, D/S 4.1.0 through 4.2.0)	
1. Evaluate the entity's indirect cost allocation bases for equity and consistency with generally accepted accounting principles, FAR, and CAS (including the applicability of the allocation bases).	
2. Determine if the same accounting period is used for accumulating costs in an indirect cost pool as for establishing its allocation base.	
3. Determine whether all unallowable costs categorized as direct costs are included in the allocation base for the purpose of allocating indirect costs.	
Direct Material	
The transaction test steps appearing below are an outline that prompts performance of MAARs and cites related CAM references for further guidance. Any supplemental audit steps should be added and budgeted into this outline during the process of finalizing the audit program.	
1. MAAR 10: Evaluate adjusting entries for both direct and indirect purchased services and material (including subcontract costs and intra-organizational charges).	
2. MAAR 13: Evaluate the results of the purchases existence and consumption review and the impact on this audit. (CAM 6-305.3a(2)).	
3. Based on the results of the risk assessment, select a sample of material transactions for testing.	

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4. Summarize the results of the testing of direct materials.	
Auditable Subcontracts (MAAR 12)	
The transaction test steps appearing below are an outline that references related preliminary steps and applicable CAM references for further guidance. Any supplemental audit steps should be added and budgeted into this outline during the process of finalizing the audit program.	
1. Verify the entity's schedule of auditable type subcontracts and intracompany orders under auditable type Government contracts and subcontracts.	
2. Arrange for necessary assist audits as determined in Section B-1, Step 11.	
3. If assist audit(s) were received and cover the time period under audit, compare the allowable costs in the assist audit report(s) to the amounts claimed. Significant differences should be further reviewed.	
4. For the remaining costs where assist audits are not being performed, based on the risk assessment, select a sample of subcontracts/intracompany costs for testing.	
5. Summarize the results of any assist audits received related to claimed subcontract/intracompany costs and any other testing of subcontract costs.	
Direct and Indirect Labor	
The transaction test steps appearing below are an outline that prompts performance of related MAARs and cites applicable CAM references for further guidance. Any required supplemental audit steps should be added and budgeted into this outline during the process of finalizing the audit program.	
1. MAAR 6: Evaluate the result of the labor floor checks or labor interviews and assess its impact on this audit. (CAM 6-404)	
2. MAAR 8: Perform a comparative analysis of sensitive labor accounts identifying any areas accounts requiring further review.(CAM 6-404.6b(4))	
3. MAAR 10: Evaluate significant adjusting journal entries. (CAM 6-404.6b(6))	
4. Executive Compensation: Perform sufficient steps to determine whether any allocable direct and indirect executive compensation that is in excess of the statutory compensation ceilings (see CAM 6-414) has either been appropriately (i) excluded from the entity's incurred cost submission or (ii) identified as expressly unallowable costs and questioned in the audit report.	

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5. If the compensation of executives and other high risk employees, including those who are paid at or below the ceiling amounts is considered material, verify that the compensation of these employees is reasonable and allowable in accordance with FAR 31.205-6, or other applicable federal or grant regulations.	
6. Based on the results of the risk assessment, select a sample of labor transactions for testing. As part of this testing, confirm that the compensation rate paid conforms to the established policy of the entity and is consistently applied to both Federal and non-Federal activities.	
7. Summarize the results of the testing of direct/indirect labor.	
Other Direct Costs (ODC)	
The transaction test steps appearing below are an outline that merely prompts performance of MAARs and cites related CAM references for further guidance. Any supplemental audit steps should be added and budgeted into this outline during the process of finalizing the audit program.	
1. Identify the universe of job numbers or grants/contracts that contain ODCs.	
2. Based on the results of the risk assessment, select a sample of ODC transactions for testing.	
3. Evaluate source documents for completeness and accuracy, and determine the appropriateness of the charges with respect to terms of the contracts/grants and applicable regulations.	
4. MAAR 10: Evaluate adjusting journal entries and exception reports for other direct costs. (CAM 6-305.3a(1))	
5. Summarize the results of the ODC testing.	
Additional Direct Cost Procedures Applicable to Grants/Contracts Subject to the OMB Circular A-122 Cost Principles:	
Determine whether the following costs are charged as direct costs and allocated an equitable share of indirect costs.	
1. Maintenance of membership rolls, subscriptions, publications, or related functions.	
2. Providing services and information to members, legislative or administrative bodies, or the public.	
3. Meetings and conferences, except those held to conduct the general administration of the organization.	
4. Maintenance, protection, and investment of special funds not used in the	

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operation of the organization.	
5. Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirements plans, financial aid, etc.	
Additional Direct Cost Procedures Applicable to Grants/Contracts Subject to the OMB Circular A-21 Cost Principles:	
1. Based on the audit effort performed, document the conclusion as to whether the direct costs were estimated, accumulated, and reported consistently (A-21, Section C.10).	
2. Based on the audit effort performed, document as to whether the costs charged directly to institutional activities (i.e., research and development, instruction, other institutional activities) are accounted for consistent with their disclosed practices, as described in their DS-2, if applicable (A-21, Section C.14).	
3. Based on the audit effort performed, Verify and document as to whether departmental costs charged direct to institutional activities are consistently charged directly, in like circumstances, and are in accordance with the provisions of A-21 and CAS.	
4. Verify costs for general-purpose equipment charged direct to institution activities are consistently charged as direct, were approved by the awarding agency, and are in accordance with the provisions of A-21 and CAS.	
5. Verify salaries and wages charged to Federal awards are allowable to the extent that total compensation to the individual employee conforms to established policies of the institution, are consistently applied, and provided that the charges for work performed directly on sponsored awards have been determined in accordance with and supported by the provisions of A-21, Sections J.10, including the following:	
a. Distribution of salaries and wages is based on payrolls documented in accordance with the generally accepted practices of the institution.	
b. Apportionment of employees' salaries and wages, which are chargeable to more than one sponsored agreement or other cost objective, is accomplished by methods which-- (1) Comply with A-21, Sections A.2 and C, (2) Produce an equitable distribution of charges for employees' activities, and (3) Distinguish the employees' direct activities from their indirect activities.	
c. The payroll distribution is based on an after-the-fact confirmation or determination that costs distributed represent actual costs. Confirmation should be by a responsible person with suitable means	

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of verification that the work was performed. Confirmation by the employee is not required if other responsible persons make appropriate confirmations.	
Indirect Expenses (Provisional Rates)	
The following audit steps apply to provisional rates or when auditing fixed rates with carry-forward provisions for purposes of establishing the carry-forward amount for a future period.	
The transaction test steps appearing below are an outline that prompts performance of MAARs and cites applicable CAM sections for additional guidance. Any supplemental audit steps should be added and budgeted into this outline during the process of finalizing the audit program.	
1. MAAR 5: Review the General Ledger, Trial Balance and closing/adjusting entries for any income and/or credit adjustments that may impact Government contracts. (CAM 6-608.2d(5)).	
2. MAAR 16: Indirect Account Analysis (CAM 6-608.2). Perform transaction testing of critical or sensitive accounts and accounts selected through the MAAR 15 evaluation. Evaluate costs for allowability, allocability, and reasonableness.	
3. MAAR 10: Evaluate significant adjusting entries. (CAM 6-608.2c(2))	
4. Miscellaneous indirect/ODC audits. (CAM 6-608)	
a. Review the entity’s IRS Form 941s (Employer’s Quarterly Federal Tax Return) for the year(s) under audit to identify employee taxes withheld (liability) and employer matching payroll taxes (expenses) to determine total payroll taxes owed.	
b. Verify timely payment of payroll taxes through the entity’s use of IRS Form 8109 (Federal Tax Deposit Coupon), Electronic Federal Tax Payment System (EFTPS), or other information to support the entity’s payment. If the entity failed to pay payroll taxes when due, it is delinquent in payment in the normal course of business and those costs should be questioned under FAR 52.216-7 b.(1)(ii)	
5. Unallowable costs (FAR 31.201-6):	
a. Determine if expressly unallowable costs, mutually agreed to be unallowable costs, costs which specifically become designated as unallowable by contracting officer’s written decision, and directly associated costs are identified and excluded.	
b. Evaluate voluntary deletions and questioned costs for directly associated costs that should also be excluded/questioned. (FAR 31.201-6(a)).	

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6. Summarize the results of the review of the indirect expenses.	
Additional Indirect Cost Procedures Applicable to OMB Circular A-122 Covered Nonprofit Organizations (NPO)	
1. For NPOs that also have awards containing award-specific rates (approved by the Federal awarding agency) that take precedence over the negotiated rate for purposes of indirect cost recovery, ascertain that the award-specific rate is only being used for the approved award.	
a. Obtain and read the award terms used to establish an award-specific indirect cost rate(s).	
b. Select a sample of claims for reimbursement and verify that the award specific rate(s) was used and applied to the appropriate base(s). Verify that the cost included in the base(s) is consistent with the terms of the agreement.	
Indirect Cost (Fixed with Carry-Forward Rates)	
At an entity using a fixed rate with carry-forward provisions, the indirect costs have been established by the negotiated fixed rate for the A-133 year of audit. For testing compliance with A-133, the following step applies. [Note: For purposes of establishing the carry forward amount for a future period, auditors should follow the steps in the Indirect Cost (Provisional Rates) section provided above.]	
1. Select a sample of claims for reimbursement and verify that the rates used are in accordance with the rate agreement, that rates are applied to the appropriate bases, and that the amounts claimed were accurate.	
Special Purpose Evaluations	
NOTE: Any audits belonging to this area that were performed elsewhere should be cross-referenced here. If a separate audit has not been completed, a supplemental audit program, as noted below, is required to perform the required effort.	
1. Pensions.	
a. If pension costs are incurred for the year, the Standard Audit Program Incurred Pension Cost and CAS 412 and 413 Compliance, DMIS Activity Code 19412, should be used to evaluate those costs and the entity’s compliance with applicable provisions of CAS 412 and 413.	
b. If no pension costs are incurred for the year, the following steps should be performed for defined benefit plans:	
(1) Determine if any events have occurred since the last audit that would require an adjustment to previously determined pension costs per CAS 413.50(c)(12); i.e., a segment closing, pension plan	

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<p>termination, or curtailment of benefits. If so, in addition to completing the steps below, a special CIPR must be performed using the Standard Audit Program CAS 413.50(c)(12) Segment Closing Adjustments, under DMIS Activity Code 19413.</p>	
<p>(2) Evaluate the Trustee report and obtain an explanation for any significant withdrawals of pension assets. Perform additional audit steps as needed to ensure that Government contributed pension assets are protected.</p>	
<p>(3) Determine if any events have occurred since the last audit that may result in conditions that require segment accounting (CAS 413.50(c)(2) and (3)). If so, recommend to the ACO that a special CIPR be performed to verify that the entity has complied with CAS 413.50(c)(2), (c)(3) and (c)(5).</p>	
<p>(4) If the entity’s practice is to calculate pension costs by segment:</p>	
<p>(a) Verify that the records required by CAS 413.50(c)(7) are properly maintained and that investment earnings of the trust are allocated in accordance with CAS 413.50(c)(7).</p>	
<p>(b) Determine if the transfer of active employees among segments distorts the ratio of assets to the actuarial accrued liabilities.</p>	
<p>(c) If so, verify that assets equal to the employees’ actuarial accrued liabilities (determined using the accrued benefit cost method) were transferred in accordance with CAS 413.50(c)(8). Consider requesting the assistance of the DCMA pension specialist through the ACO (CAM 5-1303.1c).</p>	
<p>NOTE: Pension and insurance costs are audited by the FAO cognizant of the entity location where the plans are administered and the costs are incurred.</p>	
<p>A-122 Special Requirements for Internal Service, Central Service, Pension, or Similar Activities or Funds</p>	

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1. For activities accounted for in separate funds, ascertain that: (1) retained earnings/fund balances (including reserves) were computed in accordance with the applicable cost principles; (2) working capital reserves were not excessive in amount (generally not greater than 60 days for cash expenses for normal operations incurred for the period exclusive of depreciation, capital costs, and debt principal costs); and (3) refunds were made to the Federal Government for its share of any amounts transferred or borrowed from internal service, central service, pension, insurance, or other similar activities or funds for purposes other than to meet the operating liabilities, including interest on debt, of the fund.	
2. Test that all users of services are billed in a consistent manner.	
3. Test that billing rates exclude unallowable costs in accordance with A-122.	
4. Test, where activities are not accounted for in separate funds, that billing rates (or charges) are developed based on actual costs.	
5. For organizations that have self-insurance and a certain type of fringe benefit program (e.g., pension funds), ascertain if independent actuarial studies appropriate for such activities are performed at least biennially and that current period costs were allocated based on an appropriate study that is not over two years old.	
Additional Procedures for Educational Institutions with Large Research Facilities	
1. Perform the following procedures related to large research facilities:	
a. Ascertain if the institution had large research facilities, as defined in OMB Circular A-21, Section F. 2.c., under construction. If not, the following audit procedures (b and c) do not apply.	
b. For large research facilities under construction of which 40 percent or more of total assignable space is expected for Federal use, review the institution's approval process that should include board minutes or other documentation to ascertain if the institution's Board of Trustees or other independent entity reviewed and approved these construction projects.	
c. For research facilities under construction costing more than \$25 million, of which 50 percent or more of total assignable space is expected for Federal use, ascertain if the institution documented the review steps performed to assure that construction costs are reasonable.	

G-1	Cash Management – Compliance Requirement C
Version 4.7, dated November 2015	

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Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.	
Control Objective: To provide reasonable assurance that the draw down of Federal cash is only for immediate needs and recipients limit payments to subrecipients for immediate cash needs.	
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Cash Management	
Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.	
1. Cash draw down requests are approved by a responsible official(s).	
2. Subrecipient cash payment requests are approved by a responsible official(s).	
3. Budgets for cash draw downs are prepared and are consistent with realistic cash needs.	
Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.	
1. Procedures exist to anticipate, identify, and react to routine events that affect cash needs.	
2. Procedures are in place to routinely assess the adequacy of subrecipient cash needs.	
3. Management has identified programs which receive cash advances and is aware of cash management requirements.	
Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. Consider the following in obtaining your understanding.	
1. Cash flow statements by program are prepared to determine essential cash flow needs.	
2. The accounting system is capable of scheduling payments for accounts payable and requests for funds from Treasury to avoid time lapses between draw down of funds and the actual disbursement of funds.	
3. Written policies are in place that provide:	
a. Procedures for requesting cash advances as close as is reasonably possible to actual cash outlays.	
b. Monitoring of cash management activities.	
c. Repayment of excess interest earnings when required.	

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<p>Information and Communication. The auditor should develop a sufficient understanding of the entity’s information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objectives. Consider the following in obtaining your understanding.</p>	
<p>1. Variances between expected and actual cash disbursements of Federal awards and draw downs of Federal funds are reported to an appropriate level of management.</p>	
<p>2. Channels of communication have been established between pass-through entities and subrecipients regarding cash needs.</p>	
<p>Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.</p>	
<p>1. There is periodic independent evaluation (e.g., by internal audit, top management) of entity cash management, budget and actual results, repayment of excess interest earnings, and Federal draw down activities.</p>	
<p>2. Subrecipient requests for Federal funds are properly evaluated.</p>	
<p>Detailed Audit Steps</p>	
<p>1. Document your understanding of the internal controls over compliance for Cash Management. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.</p>	
<p>2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P G.</p>	
<p>3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.</p>	

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Suggested Audit Steps for Reviewing the Auditee’s Compliance with Cash Management	
The following are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on W/P G.	
	W/P Reference
Other Recipients and Subrecipients:	
1. For those programs that receive advances of Federal funds, ascertain the procedures established with the Federal agency or pass-through entity to minimize the time between the transfer of Federal funds and the pay out of funds for program purposes.	
2. Select a sample of Federal cash draws and verify that:	
a. Established procedures to minimize the time elapsing between drawdown and disbursement were followed.	
b. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional cash payments, as required by OMB Circular A-110 (§____.22).	
3. Where applicable, select a sample of reimbursement requests and trace to supporting documentation showing that the costs, for which reimbursement was requested, were paid prior to the date of the reimbursement request.	
4. Review records to determine if interest was earned on Federal cash draws. If so, review evidence to ascertain whether it was returned to the appropriate agency.	

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H-1	Davis - Bacon Act – Compliance Requirement D
Version 4.7, dated November 2015	
Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.	
Control Objective: To provide reasonable assurance that contractors and subcontractors were properly notified of the Davis-Bacon Act and the required payrolls were submitted to the non-Federal entity.	
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to the Davis - Bacon Act Compliance	
Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.	
1. Management understands and communicates to staff and subrecipients the requirement to pay wages in accordance with the Davis-Bacon Act.	
2. Management understands their responsibility to monitor compliance.	
Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.	
1. Procedures are in place to identify contractors and subcontractors most at risk of noncompliance.	
2. Management has identified how compliance will be monitored and the related risks of failure to monitor for compliance with the Davis-Bacon Act.	
Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. A detailed understanding of the control activities is essential to the assessment of control risk. Consider the following in obtaining your understanding.	
1. Contractors are informed in the procurement documents of the requirement to pay prevailing wage rates.	
2. Contractors and subcontractors are required by contract to submit certifications and copies of payrolls.	
3. Contractors’ and subcontractors’ payrolls are monitored to ensure certified payrolls are submitted.	
Information and Communication. The auditor should develop a sufficient understanding of the entity’s information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objectives. Consider the following in obtaining your understanding.	

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1. Prevailing wage rates are appropriately communicated.	
2. Reports provide sufficient information to determine if requirements are being met.	
3. Channels of communication are established for staff to report noncompliance.	
Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.	
1. Management performs reviews to ensure that contractors and subcontractors are properly notified of the Act’s requirements.	
2. Management performs reviews to ensure certified payrolls are properly received.	
Detailed Audit Steps	
1. Document your understanding of the internal controls over compliance for Davis – Bacon Act, Compliance Requirement D. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P H.	
3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.	

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The following procedures are labeled as suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on W/P H.	
Suggested Audit Steps for Reviewing the Auditee’s Compliance with the Davis-Bacon Act Compliance Requirement	W/P Reference
1. Ascertain if the non-Federal entity received Federal funds for construction projects; if yes, review program/project requirements to ascertain if the program/project was covered by the Davis-Bacon Act.	
2. Select a sample of construction contracts and subcontracts exceeding \$2,000:	
a. Verify that the required prevailing wage rate clauses were included in the contracts.	
b. Verify that the contractor or subcontractor submitted weekly the required certified payrolls.	

I-1	Equipment And Real Property Management – Compliance Requirement F	
	Version 4.7, dated November 2015	
	Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.	
	Control Objectives. To provide reasonable assurance that proper records are maintained for equipment acquired with Federal awards, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with Federal requirements, and the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use.	
	Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Equipment and Real Property Management	
	Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding	
	1. Management is committed to providing proper stewardship for property acquired with Federal awards.	
	2. There are no incentives in place to under-value assets at time of disposition.	
	3. Sufficient accountability exists to discourage temptation of misuse of Federal assets.	
	Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis,	

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and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.	
1. Management has identified the risk of misappropriation or improper disposition of property acquired with Federal awards.	
2. Management understands the requirements and operations sufficiently to identify potential areas of noncompliance (e.g., decentralized locations, departments with budget constraints, transfers of assets between departments).	
Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. Consider the following in obtaining your understanding.	
1. Accurate records are maintained on all acquisitions and dispositions of property acquired with Federal awards.	
2. Property tags are placed on equipment.	
3. A physical inventory of equipment is periodically taken and compared to property records.	
4. Property records contain descriptions (including serial number or other identification number), sources, who holds title, acquisition dates and cost, percentages of Federal participation in the cost, locations, conditions, and disposition data.	
5. Procedures are established to provide reasonable assurance that the Federal awarding agency is appropriately reimbursed for dispositions of property acquired with Federal awards.	
6. Policies and procedures are in place covering recordkeeping responsibilities and disposition authority.	
Information and Communication. The auditor should develop a sufficient understanding of the entity's information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objectives. Consider the following in obtaining your understanding.	
1. The accounting system provides for separate identification of property acquired wholly or partly with Federal funds and non-Federal funds.	
2. Channels of communication are in place allowing employees to report suspected improprieties in the use or disposition of equipment.	
3. Program managers are provided with applicable requirements and guidelines.	
Monitoring. The auditor should develop a sufficient understanding of the entity's ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.	
1. Management reviews the results of periodic property inventories and	

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follow-ups on inventory discrepancies.	
2. Management reviews dispositions of property to ensure appropriate valuations and reimbursement to Federal awarding agencies.	
Detailed Audit Steps	
1. Document your understanding of the internal controls over compliance for Equipment and Real Property Management, Compliance Requirement F. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P J.	
3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.	

Suggested Audit Steps for Reviewing the Auditee’s Compliance with Equipment and Real Property Management	
The following are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper J.	W/P Reference
1. Inventory Management of Equipment.	
a. Inquire if a required physical inventory of equipment acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.	
b. Identify equipment acquired under Federal awards during the audit period and trace selected purchases to the property records. Verify that the property records contain the appropriate information (e.g., description, who holds title, acquisition date and cost, etc.).	
c. Select a sample of equipment identified as acquired under Federal awards from the property records and physically inspect the equipment, including whether the equipment is appropriately safeguarded and maintained.	
2. Disposition of Equipment.	
a. Determine the amount of equipment dispositions for the audit period and perform procedures to verify that dispositions were properly classified between equipment acquired under Federal awards and equipment acquired otherwise.	
b. For dispositions of equipment acquired under Federal awards, perform procedures to verify that the dispositions were properly reflected in the	

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property records.	
c. For dispositions of equipment acquired under Federal awards with a current per-unit fair market value in excess of \$5,000, test whether the awarding agency was reimbursed for the appropriate share.	
(Procedure 3 applies to nonprofit organizations, whether funding is received as a recipient or subrecipient.)	
3. Disposition of Real Property.	
a. Determine real property dispositions for the audit period and which properties (if any) were acquired with Federal awards.	
b. For dispositions of real property acquired under Federal awards, perform procedures to verify that the non-Federal entity followed the instructions of the awarding agency.	

J-1	Matching or Level Of Effort or Earmarking – Compliance Requirement G
Version 4.7, dated November 2015	
Note: Only Matching is applicable to the Research and Development Cluster, which normally contain DoD’s contracts and grants and is included in the steps below.	
Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.	
Control Objective: To provide reasonable assurance that matching requirements are met using only allowable funds or costs which are properly calculated and valued.	
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Matching	
Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding	
1. Management is committed to meeting matching requirements.	
2. The budgeting process addresses/provides adequate resources to meet matching goals.	
3. Written policies are in place that outline:	
a. Responsibilities for determining required amounts or limits for matching.	
b. Methods of valuing matching requirements, e.g., “in-kind” contributions of property and services, calculations of levels of effort.	
c. Allowable costs that may be claimed for matching.	
d. Methods of accounting for and documenting amounts used to calculate	

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amounts claimed for matching.	
<p>Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding. .</p>	
1. Management has identified areas where estimated values will be used for matching.	
2. Management has a sufficient understanding of the accounting system to identify potential recording problems.	
<p>Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. Consider the following in obtaining your understanding.</p>	
1. Evidence is obtained such as a certification from the donor, or other procedures are performed to identify whether matching contributions:	
a. Are from non-Federal sources;	
b. Involve Federal funding, directly or indirectly;	
c. Were used for another federally-assisted program.	
2. There is an adequate review by program management of monthly cost reports and adjusting entries.	
<p>Information and Communication. The auditor should develop a sufficient understanding of the entity's information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objectives. Consider the following in obtaining your understanding.</p>	
1. The accounting system is capable of:	
a. Separately accounting for data used to support matching amounts or limits or calculations.	
b. Ensuring that expenditures or expenses, refunds, and cash receipts or revenue are properly classified and recorded only once as to their effort on matching.	
c. Documenting the value of "in-kind" contributions of property or services, including: (a) basis for local labor market rates for valuing volunteer services, (b) payroll records or confirmation from other organizations for services provided by their employees, (c) quotes, published prices, or independent appraisals used as the basis for donated equipment, supplies, land, buildings, or use of space.	
<p>Monitoring. The auditor should develop a sufficient understanding of the entity's ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.</p>	
1. There is adequate supervisory review of matching activity performed to	

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assess the accuracy and allowability of transactions and determinations (e.g. at the time reports on Federal awards are prepared).	
Detailed Audit Steps	
1. Document your understanding of the internal controls over compliance for Matching within Compliance Requirement G. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P K.	
3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.	

Suggested Audit Steps for Reviewing the Auditee’s Compliance with Matching	
The following are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper K.	
	W/P Reference
1. Perform tests to verify that the required matching contributions were met.	
2. Ascertain the sources of matching contributions and perform tests to verify that they were from an allowable source.	
3. Test records to corroborate that the values placed on in-kind contributions are in accordance with the OMB cost circulars, program regulations, and the terms of the award.	
4. Test transactions used to match for compliance with the allowable costs/cost principles requirement listed in the working papers. This test may be performed in conjunction with the testing of the requirements related to allowable costs/cost principles.	

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K-1	Period Of Availability Of Federal Funds – Compliance Requirement H	
Version 4.7, dated November 2015		
Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.		
Control Objective: To provide reasonable assurance that Federal funds are used only during the authorized period of availability.		
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Period of Availability of Federal Funds		
Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding		
1. Management understands and is committed to complying with the period of availability requirement.		
2. The entity’s operations are such that it is unlikely there will be Federal funds remaining at the end of the period of availability.		
Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding. .		
1. The budgetary process considers the period of availability of Federal funds as to both obligation and disbursement of funds.		
2. There is adequate identification and communication of period of availability cut-off requirements as to both obligations and disbursement.		
Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. Consider the following in obtaining your understanding.		
1. The accounting system prevents obligation or expenditure of Federal funds outside of the period of availability.		
2. A review of disbursements is made by persons knowledgeable of the period of availability for the funds.		
3. End of grant period cut-offs are met by such mechanisms as advising program managers of impending cut-off dates and review of expenditures from program funds just before and after the cut-off data.		
4. Cancellation of unliquidated commitments are made at the end of the period of availability.		

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<p>Information and Communication. The auditor should develop a sufficient understanding of the entity’s information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objectives. Consider the following in obtaining your understanding.</p>	
<p>1. There is timely communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditures, including automated notifications of pending deadlines.</p>	
<p>2. There is periodic reporting of unliquidated balances to appropriate levels of management and follow up.</p>	
<p>Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.</p>	
<p>1. Management or other responsible officials periodically review expenditures just before and after cut-off dates to ensure compliance with period of availability requirements.</p>	
<p>2. Management reviews reports showing budgeted and actual expenditures for the period.</p>	
<p>Detailed Audit Steps</p>	
<p>1. Document your understanding of the internal controls over compliance for Period of Availability of Federal Funds, Compliance Requirement H. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.</p>	
<p>2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P L.</p>	
<p>3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.</p>	

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Suggested Audit Steps for Reviewing the Auditee’s Compliance with Period of Availability of Federal Fund	
The following are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper L.	
Audit Objective: Determine whether Federal funds were obligated within the period of availability and obligations were liquidated within the required time period.	
	W/P Reference
1. Review the award documents and regulations pertaining to the program and determine any award specific requirements related to the period of availability and document the availability period.	
2. Test a sample of transactions charged to the Federal award after the end of the period of availability and verify that the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period.	
3. Test a sample of transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.	
4. Select a sample of adjustments to the Federal funds and verify that these adjustments were for transactions that occurred during the period of availability.	

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L-1	Procurement And Suspension And Debarment – Compliance Requirement I	
Version 4.7, dated November 2015		
Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.		
Control Objectives. To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of OMB Circular A-110 and/or other requirements, as applicable, and that covered transactions (as defined in the suspension and debarment rule) are not made with a debarred or suspended party.		
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Procurement and Suspension and Debarment		
Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.		
	1. Codes of conduct and other policies regarding acceptable practices, conflicts of interest, or expected standards of ethical and moral behavior for making procurements are in existence and implemented.	
	2. A procurement manual including the Federal requirements is made available to responsible management and employees.	
	3. There is an absence of significant pressure to meet unrealistic procurement performance targets.	
	4. Management has a prohibition against intervention or overriding established procurement controls.	
	5. Board or governing body oversight is required for high dollar, lengthy, or other sensitive procurement contracts.	
	6. The knowledge and experience of key procurement managers is adequate in light of their responsibilities for procurements for Federal awards.	
	7. There is a clear assignment of authority for issuing purchasing orders and contracting for goods and services.	
Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.		
	1. Management has identified risks arising from vendor inadequacy, (e.g., quality of goods and services, delivery schedules, warranty assurances) and policies and procedures are in place to reduce the risk to an acceptable level.	

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<p>2. Management understands the requirements for procurement, suspension, and debarment, and, given the organization’s staff, departments, and processes, management has identified where noncompliance could likely occur.</p>	
<p>3. Management has identified risks arising from conflicts of interest, (e.g., kickbacks, related party transactions, bribery) and policies and procedures are in place to reduce the risk to an acceptable level.</p>	
<p>4. Conflict of interest statements are maintained for individuals with responsibility for procurement of goods and services.</p>	
<p>Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. A-102 Consider the following in obtaining your understanding.</p>	
<p>1. Job descriptions or other means are used to define tasks that comprise particular procurement jobs.</p>	
<p>2. The contractor’s performance with the terms, conditions and specifications of the contract is monitored and documented.</p>	
<p>3. There is segregation of duties between employees responsible for contracting, accounts payable, and cash disbursing.</p>	
<p>4. Procurement actions are appropriately documented in the procurement files.</p>	
<p>5. Supervisors review procurement and contracting decisions for compliance with Federal procurement policies.</p>	
<p>6. Procedures are established to verify that vendors providing goods and services under the award have not been suspended or debarred from Federal procurements or contracts.</p>	
<p>7. Official written policies for procurement and contracts are in place that require:</p>	
<p>a. Contract files documenting significant procurement history.</p>	
<p>b. Methods of procurement authorized including selection of contract type, entity selection or rejection, and the basis of contract price.</p>	
<p>c. Verification that procurement provides full and open competition.</p>	
<p>d. Cost or price analysis, including for contract modifications.</p>	
<p>e. Obtaining and reacting to suspension and debarment certifications.</p>	
<p>f. Other applicable requirements for procurement under Federal awards to be followed.</p>	
<p>8. Official written policies are in place covering suspension and debarments that:</p>	

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a. Contain or reference the Federal requirements.	
b. Prohibit the award of a subaward, covered contract, or other covered agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party.	
c. Requires staff to determine that entities receiving subawards of any value and procurement contracts equal to or exceeding \$25,000 and their principals are not suspended or debarred, and specifies the means that will be used to make that determination.	
<p>Information and Communication. The auditor should develop a sufficient understanding of the entity’s information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objectives. Consider the following in obtaining your understanding.</p>	
1. There is a system in place to assure that the following procurement documentation is retained for the time period required by OMB Circular A-110, award agreements, contracts, and program regulations:	
a. The basis for contractor selection.	
b. Justification for lack of competition when competitive bids or offers are not obtained.	
c. The basis for award, cost or price.	
2. Employee procurement duties and control responsibilities are effectively communicated.	
3. Procurement staff are provided current “Lists of Parties Excluded from Federal Procurement or Nonprocurement Programs” issued by the General Services Administration (updated for current changes) or have on-line access to the electronic version called the Excluded Parties List System (EPLS).	
4. Channels of communication are provided for people/employees to report suspected procurement and contracting improprieties to an appropriate level of management.	
<p>Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.</p>	
1. Management or representatives of management periodically conduct independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.	
Detailed Audit Steps	
1. Document your understanding of the internal controls over compliance for Procurement and Suspension and Debarment, Compliance	

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Requirement I. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P M.	
3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.	

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Suggested Audit Steps for Reviewing the Auditee’s Compliance with Procurement, Suspension, and Debarment	
The following are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on W/P M.	
Audit Objectives: Determine whether procurements were made in compliance with the provisions of OMB Circular A-110, and other procurement requirements specific to an awards, as applicable. For covered transactions, determine whether the non-Federal entity verified that entities are not suspended or debarred or otherwise excluded.	
	W/P Reference
1. Obtain the entity’s procurement policies. Verify that the policies comply with applicable Federal requirements under OMB Circular A-110 (§___.43).	
2. Ascertain if the entity has a policy to use statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids and proposals. If yes, verify that these limitations were not applied to Federal procurement except where applicable Federal statutes expressly mandate or encourage geographic preference under OMB Circular A-110 (§___.43).	
3. Examine procurement polices and procedures and verify the following:	
a. Written selection procedures require that solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured, identify all requirements that the offerors must fulfill, and include all other factors to be used in evaluating bids or proposals as per OMB Circular A-110 [§___.44(a)(3)]	
b. There is a written policy pertaining to ethical conduct as per OMB Circular A-110 (§___.42).	
4. Select a sample of procurements and perform the following:	
a. Examine contract files and verify that they document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price. See OMB Circular A-110 (§___.46).	
b. Verify that procurement procedures provide full and open competition. See OMB Circular A-110 (§___.43)	
c. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified. See OMB Circular A-110 [§___.43 and .44(e)]	

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<p>d. Verify that contract files exist and ascertain if appropriate cost or price analysis was performed in connection with procurement actions, including contract modifications, and that this analysis supported the procurement action. See OMB Circular A-110 [§___.45].</p>	
<p>e. Verify that the awarding Federal agency approved procurements exceeding \$100,000 when such approval was required. Procurements awarded by noncompetitive negotiation, awarded when only a single bid or offer was received, awarded to other than the apparent low bidder, or specifying a “brand name” product may require prior Federal awarding agency approval. See OMB Circular A-110 [§___.44(e)].</p>	
<p>f. Verify compliance with other procurement requirements specific to an award.</p>	
<p>5. Test a sample of procurements and subawards and ascertain if the required suspension and debarment certifications were received for subawards and covered contracts, or test a sample of procurements and subawards to the List of Parties Excluded From Federal Procurement or Nonprocurement Programs, issued by the GSA and ascertain if contracts were awarded to suspended or debarred parties.</p>	

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M-1	Program Income – Compliance Requirement J
Version 4.7, dated November 2015	
Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.	
Control Objective: To provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements.	
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Program Income	
Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding	
1. Management recognizes its responsibilities for program income.	
2. Management establishes a prohibition against intervention or overriding controls over program income.	
3. Performance targets for the generation of program income are realistic.	
Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding. .	
1. Mechanisms are in place to identify the risk of unrecorded or miscoded program income.	
2. Variances between expected and actual income are analyzed.	
Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. Consider the following in obtaining your understanding.	
1. Pricing and collection policy procedures are clearly communicated to personnel responsible for program income.	
2. Mechanisms are in place to provide reasonable assurance that program income is properly recorded as earned and deposited in the bank as collected.	
3. Policies and procedures are in place to provide for correct use of program income in accordance with Federal program requirements.	
Information and Communication. The auditor should develop a sufficient understanding of the entity’s information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objective. Consider the following in obtaining your understanding.	
1. Information systems identify program income collections and usage.	

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2. Channels of communication are in place allowing people to report suspected improprieties in the collection or use of program income.	
Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.	
1. There is an internal audit, either formal or informal, of program income.	
2. Management compares program income to budget and investigates significant differences.	
Detailed Audit Steps	
1. Document your understanding of the internal controls over compliance for Program Income, Compliance Requirement J. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P N.	
3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.	

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Suggested Audit Steps for Reviewing the Auditee’s Compliance with Program Income	
The following are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper N.	
Audit Objective: Determine whether program income is correctly determined, recorded, and used in accordance with program requirements and OMB Circular A-110, and other requirements specific to awards, as applicable.	
	W/P Reference
1. Identify Program Income	
a. Review the laws, regulations, and the provisions of contracts or grant agreements applicable to the program and ascertain if program income was anticipated and, if so, the requirements for recording and using program income.	
b. Inquire of management and review accounting records to ascertain if program income was received.	
2. Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that program income was only collected from allowable sources.	
3. Perform tests to verify that all program income was properly recorded in the accounting records.	
4. Perform tests to ascertain if program income was used in accordance with the program requirements and OMB Circular A-110.	

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N-1	Real Property Acquisition And Relocation Assistance – Compliance Requirement K	
Version 4.7, dated November 2015		
Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.		
Control Objective: To provide reasonable assurance of compliance with the real property acquisition, appraisal, negotiation, and relocation requirements.		
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Program Income		
Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding		
1. Management is committed to ensuring compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA).		
2. Written policies provide direction for handling relocation assistance and real property acquisition payments.		
Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.		
1. The entity has identified the risk that relocation will not be conducted in accordance with the URA, e.g., improper payments will be made to individuals or businesses that relocate.		
Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. Consider the following in obtaining your understanding.		
1. Employees handling relocation assistance and real property acquisition have been trained in the requirements of URA.		
2. Employees, knowledgeable in the URA, review expenditures pertaining to real property acquisition and relocation assistance.		
Information and Communication. The auditor should develop a sufficient understanding of the entity’s information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objectives. Consider the following in obtaining your understanding.		
1. A system is in place to adequately document relocation assistance and real property acquisition.		

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Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.	
1. Management monitors relocation assistance and real property acquisition for compliance with the URA..	
Detailed Audit Steps	
1. Document your understanding of the internal controls over compliance for Real Property Acquisition and Relocation Assistance, Compliance Requirement K. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P O.	
3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.	

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Suggested Audit Steps for Reviewing the Auditee’s Compliance with Real Property and Relocation Assistance	
The following are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper O	
Audit Objective: Determine whether the non-Federal entity complied with the real property acquisition, appraisal, negotiation, and relocation requirements.	
	W/P Reference
1. Inquire of management and review the records of Federal programs to ascertain if the non-Federal entity administers Federally-assisted programs that involve the acquisition of real property or the displacement of households or businesses. If no, Steps 2–5 do not apply.	
2. Select a sample of property acquisitions.	
a. Appraisal—Test records to verify: (1) the just compensation amount offered the property owner was determined by an appraisal process; (2) the appraisal(s) was examined by a review appraiser; and (3) the review appraiser prepared a signed statement that explains the basis for adjusting comparable sales to reach the review appraiser’s determination of the fair market value.	
b. Negotiations—Verify from supporting documentation that (1) a written offer of the appraised value was made to the property owner; and (2) a written justification was prepared if the purchase price for the property exceeded the amount offered and that the documentation (e.g., recent court awards, estimated trial costs, valuation problems) supports such administrative settlement as being reasonable, prudent, and in the public interest.	
c. Residential Relocations—Test supporting documentation to ascertain if the non-Federal entity made available to the displaced persons one or more comparable replacement dwellings.	
3. Select a sample of replacement housing payments and examine the non-Federal entity’s records to verify if there is documentation that supports the following:	
a. The owner occupied the displacement dwelling for at least 180 days immediately prior to initiation of negotiations.	
b. The non-Federal entity examined at least three comparable replacement dwellings available for sale and computed the payment on the basis of the price of the dwelling most representative of the displacement dwelling.	
c. The asking price for the comparable dwelling was adjusted, to the extent justified by local market data, to recognize local area selling	

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price reductions.	
d. The allowance for the increased mortgage cost “buy down” amount was computed based on the remaining principal balance, the interest rate, and the remaining term of the old mortgage on the displacement dwelling.	
e. The non-Federal entity prepared written justification on the need to employ last resort housing provisions, if the total replacement housing payment exceeded \$22,500.	
4. Select a sample of rental or down payment assistance payments and examine the non-Federal entity’s records to ascertain if there is documentation that supports the following:	
a. The displacee occupied the displacement dwelling for at least 90 days immediately prior to initiation of negotiations.	
b. The displacee rented or purchased, and occupied, a decent, safe, and sanitary replacement dwelling within one year.	
c. The non-Federal entity prepared written justification if the payment exceeded \$5,250.	
5. Select a sample of business relocation payments.	
a. Moving Expenses—Verify that payments for moving and related expenses were for actual costs incurred or that fixed payments, in lieu of actual costs, were limited to a maximum of \$20,000 and computed based on the average annual net earnings of the business as evidenced by income tax returns, certified financial statements, or other reliable evidence.	
b. Business Reestablishment Expense—Verify that (1) the displacee was eligible as a farm operation, a nonprofit organization, or a small business to receive reestablishment assistance, and (2) the payment was for actual costs incurred and did not exceed \$10,000.	

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O-1	Reporting – Compliance Requirement L	
Version 4.7, dated November 2015		
Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.		
Control Objectives: To provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.		
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Reporting		
Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding		
1. Persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities.		
2. Management’s attitude towards reporting promotes accurate and fair presentations.		
3. There is an appropriate assignment of responsibility and delegation of authority for reporting decisions.		
Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.		
1. Mechanisms exist to identify risks of faulty reporting caused by such items as (e.g., lack of current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of Federal awards).		
2. Procedures are in place to identify underlying source data, or analysis for performance or special reporting that may not be reliable.		
Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. Consider the following in obtaining your understanding.		
1. Written policies establish responsibility and provides the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments.		
2. A tracking system is in place which reminds staff when reports are due.		
3. The general ledger or other reliable records are the basis for the reports.		

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4. Supervisory review of reports is performed to assure accuracy and completeness of data and information included in the reports.	
5. The required accounting method is used (e.g., cash or accrual).	
Information and Communication. The auditor should develop a sufficient understanding of the entity’s information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objectives. Consider the following in obtaining your understanding.	
1. An accounting or information system is in place that provides for the reliable processing of financial and performance information for Federal awards.	
Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.	
1. Communications from external parties are reviewed to determine if they corroborate information included in the reports for Federal awards.	
2. Comparisons of reports to supporting records are made periodically by appropriate officials.	
Detailed Audit Steps	
1. Document your understanding of the internal controls over compliance for Reporting, Compliance Requirement L. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P P.	
3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.	

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Suggested Audit Steps for Reviewing the Auditee’s Compliance with Reporting	
The following are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper P.	
Note: For recipients using PMS to draw Federal funds, the auditor should consider the following steps, numbered 1 through 5, as they pertain to the PMS 272, PMS 272-A, PMS 272-B, and PMS 272-E, regardless of the source of the data included in the PMS reports. Although certain data is supplied by the Federal awarding agency (i.e., award authorization amounts) and certain amounts are provided by HHS’s Division of Payment Management (DPM), the auditor should ensure that such amounts are in agreement with the recipient's records and are otherwise accurate.	
	W/P Reference
1. Review applicable laws, regulations, and the provisions of contracts or grant agreements pertaining to the program for reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency, or pass-through entity in the case of a subrecipient, instructions for completing the reports.	
a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).	
2. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences.	
a. Examples of analytical procedures include:	
(1) Comparing current period reports to prior period reports.	
(2) Comparing anticipated results to the data included in the reports.	
(3) Comparing information obtained during the audit of the financial statements to the reports.	
3. Select a sample of financial reports and:	
a. Ascertain if the financial reports were prepared in accordance with the required accounting basis.	
b. Trace the amounts reported to accounting records that support the audited financial statements and the schedule of expenditures of Federal awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.	
c. For any discrepancies noted in PMS-272 reports, review subsequent PMS-272 reports to ascertain if the discrepancies were appropriately resolved with the Department of Health and Human Services’ Division of Payment Management.	

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d. When reconciling computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.	
e. Test mathematical accuracy of reports and supporting worksheets.	
4. Test the financial reports for completeness and review accounting records and ascertain if all applicable accounts were included in the sample reports (e.g., program income, expenditure credits, loans, and reserve funds).	
5. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the Federal awarding agency, the Department of Health and Human Services' Division of Payment Management for recipients using the Payment Management System, or pass-through entity in the case of a subrecipient.	

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P-1	Subrecipient Monitoring – Compliance Requirement M	
Version 4.7, dated November 2015		
Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.		
Control Objectives: To provide reasonable assurance that Federal award information and compliance-requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtained required audits performed and takes appropriate corrective action on audit findings.		
Suggested Audit Steps for Reviewing the Auditee’s Internal Controls Relating to Subrecipient Monitoring		
Control Environment. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of internal control over compliance. Consider the following in obtaining your understanding.		
	1. Management is committed to monitoring subrecipients.	
	2. Management shows an intolerance of overriding established procedures to monitor subrecipients.	
	3. The entity’s organizational structure and its ability to provide the necessary information flow to monitor subrecipients, are adequate.	
	4. Sufficient resources (personnel and funds) are dedicated to subrecipient monitoring.	
	5. The knowledge, skills and abilities needed to accomplish subrecipient monitoring tasks are defined.	
	6. Individuals performing subrecipient monitoring possess the necessary knowledge, skills, and abilities.	
	7. Subrecipients demonstrate that:	
	a. They are willing and able to comply with the requirements of the award.	
	b. They have accounting systems, including the use of applicable cost principles, and internal control systems adequate to administer the award.	
	8. Appropriate sanctions are taken for subrecipient noncompliance.	
Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of		

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internal control over compliance. Consider the following in obtaining your understanding.	
1. Key managers understand the subrecipient’s environment, systems, and controls sufficient to identify the level and methods of monitoring required.	
2. Mechanisms exist to identify risks arising from external sources affecting subrecipients, such as risks related to:	
a. Economic or political conditions,	
b. Regulatory changes,	
c. Unreliable information,	
3. Mechanisms exist to identify and react to changes in subrecipients, such as:	
a. Financial problems that could lead to diversion of grant funds,	
b. Loss of essential personnel,	
c. Loss of license or accreditation to operate program,	
d. Rapid growth,	
(1) New activities, products, or services,	
(2) Organizational restructuring.	
Control Activities. The auditor should obtain an understanding of the entity's control activities for this control objective. Consider the following in obtaining your understanding.	
1. Federal award information (e.g., CFDA title and number, award name, name of Federal agency, and amount of award) and applicable compliance requirements are provided to all subrecipients.	
2. The requirement to comply with all compliance requirements applicable to all applicable Federal programs, including the audit requirements of OMB Circular A-133, is included in all subrecipient agreements.	
3. Subrecipient compliance with audit requirements is monitored using techniques such as the following:	
a. Determining by inquiry and discussions whether the subrecipient met thresholds requiring an audit under OMB Circular A-133.	
b. If an audit is required, assuring that the subrecipient submits the report, report package, or the documents required by the latest OMB circulars and/or recipient’s requirements.	
c. If a subrecipient was required to obtain an audit in accordance with OMB Circular A-133 but did not do so, there is follow-up with the subrecipient until the audit is completed. Appropriate actions are taken such as withholding further funding until the subrecipient meets the audit requirement.	

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4. Subrecipient’s compliance with Federal program requirements is monitored using techniques such as the following:	
a. Issuing timely management decisions for audit and monitoring findings to inform the subrecipient whether the corrective action planned is acceptable.	
b. Maintaining a system to track and follow-up on reported deficiencies related to programs funded by the recipient and ensuring that timely corrective action is taken.	
c. Maintaining regular contacts with subrecipients and appropriate inquiries concerning the Federal programs.	
d. Reviewing subrecipient reports and following-up on areas of concern.	
e. Monitoring subrecipient budgets.	
f. Performing site visits to subrecipients to review financial and programmatic records and observing operations.	
g. Offering subrecipients technical assistance where needed.	
5. Official written policies exist establishing:	
a. Communication of Federal award requirements to subrecipients,	
b. Responsibilities for monitoring subrecipients,	
c. Processes and procedures for monitoring,	
d. A methodology for resolving findings of subrecipient noncompliance or weaknesses in internal control,	
e. Requirements for and processing of subrecipient audits, including appropriate adjustment of pass-through entity’s accounts.	
Information and Communication. The auditor should develop a sufficient understanding of the entity’s information and communication processes to identify significant classes of transactions and how they are initiated, processed, controlled, and reported relevant to the control objectives. Consider the following in obtaining your understanding.	
1. Standard award documents used by the non-Federal entity contain:	
a. A listing of Federal requirements that the subrecipient must follow.	
b. The description and program number for each program as stated in the CFDA, and, if applicable, the pass-through program information.	
c. A statement signed by an official of the subrecipient, stating that the subrecipient was informed of, understands, and agrees to comply with the applicable compliance requirements.	
2. A record keeping system is in place to assure timely submission of required reporting.	
3. Procedures are in place to provide channels for subrecipients to	

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communicate concerns to the pass-through entity.	
Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities and/or separate evaluations relevant to the control objective. Consider the following in obtaining your understanding.	
1. A tracking system is in place that assures timely submission of required reporting, on-site monitoring reviews of subrecipients, and timely resolution of audit findings.	
2. Supervisory reviews are performed to determine the adequacy of subrecipient monitoring.	
Detailed Audit Steps	
1. Document your understanding of the internal controls over compliance for Subrecipient Monitoring, Compliance Requirement M. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P Q.	
3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.	

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Suggested Audit Steps for Reviewing the Auditee’s Compliance with Subrecipient Monitoring	
The following are suggested audit procedures and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on W/P Q.	
	W/P Reference
Note: The auditor may wish to coordinate the tests related to subrecipients performed as part of Cash Management (tests of cash reports submitted by subrecipients), Eligibility (tests that subawards were made only to eligible subrecipients), and Procurement (tests of suspension and debarment certifications) with the testing of Subrecipient Monitoring.	
1. Gain an understanding of the pass-through entity’s subrecipient procedures through a review of the pass-through entity’s subrecipient monitoring policies and procedures (e.g., annual monitoring plan) and discussions with staff. This should include an understanding of the scope, frequency, and timeliness of monitoring activities and the number, size, and complexity of awards to subrecipients.	
2. Select a sample of award documents and agreements. Test the award documents and agreements to ascertain if: (a) at the time of award the pass-through entity made subrecipients aware of the award information (e.g., CFDA title and number, amount of award, award name, name of Federal agency) and requirements imposed by laws, regulations and the provisions of contract or grant agreements; and (b) the activities approved in the award documents were allowable.	
3. Review the pass-through entity’s documentation of testing during the award monitoring to ascertain if the pass-through entity’s monitoring provided reasonable assurance that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.	
4. Review the pass-through entity’s follow-up to ensure corrective action on deficiencies noted during-the-award monitoring.	
5. Verify that the pass-through entity:	
a. Ensured that the required subrecipient audits were completed.	
b. Issued management decisions on audit findings within six months after receipt of the subrecipient’s audit report.	
c. Ensured that subrecipients took appropriate and timely corrective action on all audit findings.	
6. Verify that in cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity took appropriate action using sanctions.	

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7. Verify that the effects of subrecipient noncompliance are properly reflected in the pass-through entity's records.	
8. Verify that the pass-through entity monitored the activities of subrecipients not subject to OMB Circular A-133.	

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Q-1	Special Tests And Provisions – Compliance Requirement N	
Version 4.7, dated November 2015		
<p>Suggested Audit Procedures for Reviewing the Auditee’s Internal Controls Relating to Special Tests and Provisions: Note that Part 6 of the A-133 Compliance Supplement does not contain any unique suggested audit procedures for compliance controls for this compliance requirement. The auditor needs to review the program’s contract and grant agreements and referenced laws and regulations to identify the compliance requirements and inquire of the non-Federal entity to help identify and understand any Special Tests and Provisions pertaining to the R&D cluster of programs. Once identified, the auditor needs to develop an understanding of the compliance controls the entity has in place for each internal control element (e.g. control environment etc.) and test those controls in operation.</p>	<p>W/P Reference</p>	
<p>Dual purpose testing should be used for both internal control and compliance testing. Document the internal control audit procedure(s) covered by the dual-purpose test. The specific audit procedures performed should adequately demonstrate the auditor’s understanding, testing, and assessment of control risk regarding the auditee’s internal controls for the year under audit.</p>		
<p>Control Objective: Develop an understanding of the compliance controls relating to identified Special Tests and Provisions that the entity has in place for each internal control element (e.g. control environment etc.) and test those controls in operation. .</p>		
<p>Control Environment. The auditor should obtain a sufficient understanding of the control environment the entity has in place for special tests and provisions to determine the impact that it may have on the overall effectiveness of internal control over compliance.</p>		
<p>Risk Assessment. The auditor should develop a sufficient understanding of the risk assessment process currently employed by the entity for special tests and provisions in terms of its identification, analysis, and management of risks to determine the impact that it may have on the overall effectiveness of internal control over compliance.</p>		
<p>Control Activities. The auditor should obtain an understanding of the entity's control activities for the special tests and provisions. Those control activities should include ensuring procedures are in place for determining if key personnel specified in the application/proposal were involved in the project as required or approval for changes was obtained from the Federal awarding agency.</p>		
<p>Information and Communication. The auditor should develop a sufficient understanding of the entity’s information and communication processes to identify, capture, and exchange information in a form and time frame that enable staff and management to carry out their responsibilities related to special tests and provisions.</p>		
<p>Monitoring. The auditor should develop a sufficient understanding of the entity’s ongoing monitoring activities associated with requirements of the special tests and provisions contained in the grants and contracts.</p>		
<p>Detailed Audit Steps</p>		
<p>1. Document your understanding of the internal controls over compliance for</p>		

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Special Tests and Provisions, Compliance Requirement N. Consider the auditee’s policies and procedures and identify relevant controls providing assurance that the compliance objective is achieved.	
2. Perform tests of controls for the relevant controls identified. Document the audit conclusion on control effectiveness on W/P R.	
3. Assess control risk as a basis to identify factors relevant to the design of substantive tests.	

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Suggested Audit Procedures for Reviewing the Auditee’s Compliance with Special Tests and Provisions	
The following are suggested steps and should be tailored to the needs of the auditor and the circumstances. The extent of compliance testing should be related to the overall conclusion on the effectiveness of controls, as documented on Working Paper R.	
Audit Objective: To identify special terms and conditions which could be material to the R&D cluster, and develop the audit objectives, audit procedures, and perform tests for compliance with the special terms and conditions.	
	W/P Reference
1. Inquire of entity management and review a sample of larger R&D awards and referenced laws and regulations to ascertain if special terms and conditions exist which could have a direct and material effect on the R&D cluster.	
a. Develop and complete audit objectives and audit procedures designed to test compliance with those terms and conditions.	

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R-1	Summary Of Prior Audit Findings	
Version 4.7, dated November 2015		
		W/P Reference
1. Obtain a Summary Schedule of Prior Audit Findings from the auditee.		
2. Review management decisions issued by federal agencies and pass-through entities and any appeals of those decisions.		
3. Consider whether the schedule:		
a. Contains all elements required by A-133, Section .315(b), including reasons why the auditee believes prior findings are no longer valid.		
b. Reports the status of all prior year findings that have not previously been listed as corrected, no longer valid, or not warranting further action, even if associated with a program that is not a current year major program.		
4. Observe activities that have been redesigned to address prior-audit findings.		
5. Test similar current-year transactions.		
6. Review the information in the schedule for consistency with:		
a. Management’s responses to inquiries.		
b. Knowledge obtained of the status of prior audit findings.		
7. Report, as a current year finding, instances where the results of audit follow-up procedures disclose that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.		

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A-1	Concluding Steps	W/P Reference
Version 4.7, dated November 2015		
1.	For any work performed by the IPA that will be relied upon, and if not already performed, review the IPA's work in accordance with CAM 4-1000.	
2.	Update the calculation of Government cost-type and T&M/FPI percentages of indirect expense bases.	
3.	Prepare a Schedule of Findings and Questioned Costs (CAM 13-706.5) Circular A-133, Section .505(d) requires inclusion of a Schedule of Findings and Questioned Costs in the reporting package for all single audits even if there are no current year findings. Complete the schedule in W/P A.	
4.	If applicable, reconcile the direct costs in the Field Detachment's assist audit report and the related indirect costs to the Schedule of Expenditures of Federal Awards.	
5.	Summarize audit results for supervisory review.	
6.	Conduct an exit conference and provide the audit results (including the exhibit and explanatory notes) to the entity. The entity's reaction should be obtained for inclusion into the final audit report.	
7.	Auditors should document and communicate with the contracting officers upon the completion of our audit:	
a.	Brief the contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues, and/or	
b.	Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.	
8.	Review and assess the auditee's response to current year audit findings as presented in the auditee's Corrective Action Plan (CAM 13-706.6). Incorporate responses and auditor's rejoinder, if necessary, into the audit report.	
9.	Obtain and review the auditee or IPA prepared Data Collection Form to ensure the information reported in the DCAA audit report is accurately presented in the Data Collection Form.	
10.	If applicable, prepare a rate agreement letter in accordance with CAM 6-708.2, if the entity agrees with the audit results.	
11.	If the entity does not agree with the audit results, prepare a DCAA Form 1	

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in accordance with CAM 6-900, if applicable. Notify the cognizant ACO of the pending Form 1 and the major cost issues. For audits of subcontracts, coordinate Form 1 issues with the prime contract auditors for their preparation of any needed Form 1.	
12. Prepare the draft report in accordance with CAM 13-700.	
13. If applicable, prepare CAS noncompliance reports.	
14. Obtain supervisory review of the draft reports and rate agreement letter or Form 1, as applicable. The RAM should also review the DCAA Form 1.	
15. Prepare any required audit lead sheets and update permanent files (CAM 4-405.1).	
16. Prepare and review the accuracy of dollars examined, questioned costs, and sustained questioned costs amounts for DMIS reporting.	