

Master Document – Audit Program

Activity Code 10160	Consulting Services
Version 5.12, dated September 2015	
B-1	Planning Considerations
Purpose and Scope	
<u>Audit Specific Independence Determination</u>	
<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>	
<ol style="list-style-type: none"> 1. The primary objectives of this audit are to determine the nature, extent, allowability, allocability and reasonableness of consultant costs charged to Government contracts. Consultants are defined in FAR 31.205-33 as "persons who are members of a particular profession or possess a special skill and who are not officers or employees of the contractor." The audit may include consultant costs charged direct to contracts, to IRD/BP, and those charged through indirect pools such as overhead and general and administrative expenses. 2. This audit program module would be performed under assignment code 10160. 	
Other Planning Considerations	
<p>Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.</p>	
References	
<ol style="list-style-type: none"> 1. FAR 31.205-33, "Professional and Consultant Service Costs." 2. FAR 31.201-3, "Determining Reasonableness." 3. FAR 31.201-4, "Determining Allocability." 4. Selected Areas of Cost Guidebook, Chapter 58 - Professional and Consultant Services 5. Selected Areas of Cost Guidebook, Chapter 42 - Lobbying Costs and Legislative Earmarks 	

Master Document – Audit Program

6. CAM 4-702.3 and Figure 4-7-5 identify "Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas."

B-1	Preliminary Steps	WP Reference
Version 5.12, dated September 2015		
1. Research and Planning		
	<p>a. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.</p>	
	<p>b. Electronically transmit an acknowledgement/notification to the ACO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
	<p>c. Review relevant Internal Control Audit Planning Summaries (General Accounting, General IT Controls, Indirect/Other Direct Cost Systems, Purchasing System, etc.) to obtain an understanding of the contractor's system and the control risk associated with the selection, acquisition, and cost charging practices related to consultant services.</p>	
	<p>(1) The auditor's understanding should include knowledge of the contractor's procurement and subcontracting procedures including methods of ensuring competition. The auditor should also understand the contractor's procedures used to identify the need for consultants, the selection process, and the manner of accounting for the cost.</p>	
	<p>(2) Increased transaction testing should be performed in those areas where internal control weaknesses exist. Conversely, transaction testing should be reduced in those areas where</p>	

Master Document – Audit Program

internal controls are adequate.	
(3) The areas listed below should be considered when obtaining an understanding of and evaluating the contractor's internal controls for consultant costs. If this information is not available in the permanent files as a result of prior audits of contractor internal control systems, prepare audit steps to understand and evaluate the contractor's controls in these areas during this audit.	
(a) Are consultant's hours controlled in the same manner as the contractor's professional labor?	
(b) Are time cards required?	
(c) Does the purchasing department maintain specifications for purchased services?	
(d) Is the organization receiving the service independent of that purchasing the service?	
(e) Does the contractor have a written policy explaining prohibited activities by purchasing agents?	
(f) Do procedures require complete history files for purchased services?	
(g) Do buyers document the purchase order files to explain price variances?	
(h) Are purchase orders specific and complete as to work scope, specifications, performance dates, and clauses of any type required by the contract?	
(i) Does the contractor have an established policy regarding the types of information and provisions to be included in agreements with outside legal firms?	
(j) Do procedures require competitive acquisitions of consultant services?	
(k) Does the contractor have a designated reviewer(s) of bills submitted by outside legal counsel and procedures to be followed when the designated reviewer believes the outside legal bills contain duplicative or excessive charges?	
(l) Does the contractor use consultants to engage in unallowable lobbying activity as described in Chapter 42 of the Selected Areas of Cost Guidebook? If so, does the contractor (1) identify and exclude such costs from billings, claims and proposals applicable to Government contracts, and (2) disclose such activity in the prescribed manner (Selected Areas of Cost Guidebook, Chapter 42 –	

Master Document – Audit Program

Lobbying Costs and Legislative Earmarks)?	
<p>d. Review the permanent files, prior working papers, audit programs, and most recent Washington office audits for information on the use of specific consultants in the past, and for significant deficiencies or weaknesses in management controls discovered during other audits. (Washington office audits, if performed by a Washington area FAO, should be filed in the audit working papers along with other assist audits.)</p>	
<p>e. 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> <ol 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>f. Review permanent file to determine if the contractor has previously 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.)</p> <p>(1) During the entrance conference:</p> <ul style="list-style-type: none"> • 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 	

Master Document – Audit Program

<p>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.</p> <p>(2) If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"> • 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. <p>(3) If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> • 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. <p>(4) 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>(5) 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>2. Entrance Conference and Preparation</p>	

Master Document – Audit Program

<p>a. Conduct an entrance conference (CAM 4-302) and cover the following matters:</p>	
<p>(1) Discuss the FAR definition of consultant costs and the contractor's definition, and resolve any differences.</p>	
<p>(2) Discuss and determine the best method of identifying the nature and extent (amount) of consultant costs (as defined by FAR) from the contractor's records. Include a discussion of potential audit validation techniques such as review of vendor listings, IRS forms, etc., to provide additional assurance that all such costs have been fully identified and accounted for.</p>	
<p>(3) Request that the contractor provide a listing of all consultants and costs charged directly or indirectly to Government contracts (including FMS contracts but excluding those contracts not under our audit cognizance) during the year/s audited. Request that the listing include costs for consultants voluntarily deleted or otherwise not claimed. Also, the contractor should furnish a summary of voluntarily deleted or otherwise not claimed costs. (Do not delay obtaining and auditing claimed costs if there are difficulties in obtaining data on voluntarily deleted or otherwise not claimed cost. Obtain any denials of access in writing and forward immediately to your RAM.) For each item listed, claimed or not claimed, obtain the following:</p>	
<ul style="list-style-type: none"> • Name of individual or firm 	
<ul style="list-style-type: none"> • Cost objective charged, i.e. direct to flexibly priced contracts, direct to FFP contracts, direct to IRD/BP projects, indirect, etc. 	
<ul style="list-style-type: none"> • Amount paid 	
<ul style="list-style-type: none"> • Nature of services performed (<i>See step 2 of the Audit of Consultant Costs Section</i> for categories.) 	
<ul style="list-style-type: none"> • Amount claimed 	
<p>(4) Follow up with contractor management on corrective actions that address previous DCAA audit findings and recommendations.</p>	
<p>(5) Follow up with contractor management regarding other studies or audits (e.g., internal auditors, consultants, Independent Public Accountants) that impact the subject matter under audit.</p>	
<p>NOTE: This audit should include a review of documentation related to costs which are not claimed, in order to validate procedures for excluding directly associated costs and for</p>	

Master Document – Audit Program

verifying base/pool relationships.	
b. Advise the contractor that we will require access to the following types of supporting documentation for those consultants selected for in-depth review.	
(1) Consultant agreements	
(2) Consultant's work products (reports, briefings, etc.) and billings.	
(3) Correspondence between consultants and the contractor.	
(4) Travel vouchers and trip reports.	
(5) Any other documents, which provide evidence of the nature and scope of the services furnished and the reasonableness of the amounts, charged.	
(6) Advise the contractor that we will require access to vendor listings and IRS Forms 1099-Misc.	
(7) Request any data, reports, or listings supplied to CPAs, the SEC, or others of sensitive consultant costs. (MAAR 4)	
c. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
d. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the fiscal years' incurred cost under audit, managements awareness of allegations of fraud or suspected fraud affecting the incurred cost audit(s), and management's understanding about the risks of fraud relevant to the incurred costs under audit. Note: This discussion and any data submitted should be documented in the working papers.	
e. 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. The discussion should include: <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), 	

Master Document – Audit Program

<ul style="list-style-type: none"> • 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) <p>(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
--	--

C-1	Evaluation of Consultant Costs	WP Reference
	Version 5.12, dated September 2015	
	1. Obtain vendor listing and 1099-Misc. (block 7) forms and review for possible consultants not included on the listing provided by the contractor. The ACO may, as a result of inquiries received, be aware of other consultants. Also, the contractor's procedures may provide for the maintenance of files which contain documents - consultant agreements, conflict of interest forms, or biographies, etc. - which will serve to identify the universe of consultants separately. Make certain you request such files from the contractor. Document any contractor representation that such files do not exist or that the contractor is	

Master Document – Audit Program

unwilling to permit us access.	
<p>2. Consultants' agreements, work products, and related records should be analyzed as follows for all sensitive consultants. Prior audit experience and professional judgment must be exercised in determining which consultants are sensitive. Overall Agency audit experience in this area has resulted in the following ranking of consultant services (shown in decreasing order of sensitivity): (i) lobbyists; (ii) sales/marketing; (iii) management services (excluding CPA firms); (iv) legal; (v) technical/engineering; (vi) accounting, CPA firms, actuary, and insurance; and (vii) other. Other consultants will be sampled to determine the allowability of costs and the accuracy of the contractor's listing. (MAAR 16)</p>	
<p>a. Determine whether the activity engaged in by the consultant is strictly unallowable in accordance with applicable DAR/FAR provisions. (FAR 31.205-33, 31.201-3, 31.205-1, 31.205-12, 31.205-14, 31.205-20, 31-205-22, 31.205-27, 31.205-38, 31.205-47, and 3.8).</p>	
<p>b. If the review of agreements and work products fails to establish a logical link to activity that benefits either the business as a whole or Government contracts or programs in particular, then the cost should be questioned. Once a consultant is questioned, the audit effort should be extended to cover all transactions with the consultant organization being examined.</p>	
<p>c. Travel and trip reports submitted by consultants should be examined to determine if the expenses are unallowable, unreasonable, or insufficiently specific to establish a link to activity that benefits the business or Government contracts. If such circumstances exist, then the cost should be questioned.</p>	
<p>3. If the consulting agreement, billings, work products, or other evidential matter do not provide sufficient evidence to support allowability, then the cost should be questioned.</p>	
<p>4. If the nature of the consulting service appears to be allowable, work products should be reviewed for the reasonableness of the fees charged.</p>	
<p>5. To the extent necessary, request technical assistance from the administrative contracting officer.</p>	
<p>6. The contractor should be advised in writing and on a real time basis of all items questioned and requested to provide a written response.</p>	
<p>7. Selected consultant contracts should be traced through the purchasing system to determine that the control procedures have been followed. Assess the adequacy of the overall system of internal controls and develop recommendations for needed improvements.</p>	

Master Document – Audit Program

8. The Auditor should develop any additional detailed audit fieldwork steps, as appropriate, to fully develop audit findings or leads noted above. These steps should be descriptive of work performed.	
9. If, during the audit, information is encountered which provides a reasonable basis for suspicion of fraud or other unlawful activity, a referral (DCAA Form 2000) should be made pursuant to CAM 4-702.	
10. If significant costs are questioned, the auditor should assess the impact on billings and forward pricing, and take appropriate action to prevent overcharging to the Government.	
11. Update the permanent files and ICAPS for the results of this review, if applicable. (MAAR 1)	

A-1	Concluding Steps	WP Reference
Version 5.12, dated September 2015		
	1. Summarize audit findings and questioned cost.	
	2. Conduct an exit conference with the contractor in accordance with CAM 4-304.	
	3. 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.	
	4. Generally, the results of this audit are to be directly incorporated into the Incurred Cost Audit Report. Prepare a memorandum for record summarizing the audit results in a format for inclusion in the Incurred Cost Audit Report.	
	5. Update the permanent file for the results of this audit. (MAAR 3)	