

Master Document – Audit Program

Activity Code 10310	Non-Major Contractors Labor Floor Checks or Interviews
Version 3.21, dated April 2016	
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>	
Purpose and Scope	
<p>1. The purpose of this procedure is to test:</p>	
<ul style="list-style-type: none"> • the contractor’s compliance with its timekeeping internal controls and procedures; and 	
<ul style="list-style-type: none"> • the reliability of employee time records. 	
<p>Also, to verify that:</p>	
<ul style="list-style-type: none"> • employees are actually at work; 	
<ul style="list-style-type: none"> • they are performing in assigned job classifications; and 	
<ul style="list-style-type: none"> • time is charged to the proper cost objective. 	
<p>2. This program should be used to perform labor floor checks at nonmajor contractor locations. Labor floor checks must be performed for the current year during the first field visit to the contractor facility within the year.</p>	
<p>3. Floor checks are most appropriate when no high-risk areas have been identified. If audit leads from prior evaluations suggest significant risk exists, the auditor may consider performing detailed labor interviews. The extent of audit effort in testing and verifying labor costs is dependent on the perceived audit risk and is influenced by (1) the nature and significance of labor and related expenses, (2) prior audit experience with the contractor, (3) the reliability and acceptability of the contractor's labor system and related internal controls, (4) the contractor's mix of contracts and nature of contract provisions, and (5) the nature of the contractor's organization and operations.</p>	

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Other Planning Considerations
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.
References
1. CAM 6-400 – Audit of Incurred Labor Costs
2. CAM 6-800 – Assist Audits of Incurred Costs
3. CAM 10-413 – Real Time Reporting (Flash Reports)
4. CAM 10-808 – Audit Reports on Noncompliance with Disclosed or Established Practices, CAS, or FAR (Noncompliance Reports)
5. CAM 4-702.3 – Fraud Indicators and Audit Procedures for Uncovering Fraud
6. CAM Figure 4-7-3 – Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas

B-1	Preliminary Steps	W/P Reference
Version 3.21, dated April 2016		
1.	Read CAM 6-405.	
2.	Look at the ICQ or labor ICAPS (if applicable) and related section of the contractor's permanent file to obtain an understanding of the contractor's labor accounting policies, procedures, and the level of control risk associated with the related internal controls. Contractor organization charts, labor charging and distribution system flowcharts, and listings of current Government contracts are very useful sources of information and should be referred to often during the analysis. All relevant information gathered during the audit should be referenced in the permanent file.	
3.	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: <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) 	

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<p>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.</p> <p>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>	
<p>4. 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>a. 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 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>b. 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 	

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<p>audit reports to request the contractor provide access to the reports.</p> <ul style="list-style-type: none"> • 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>c. 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>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>5. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.</p>	
<p>When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4 and 10-504.4.</p>	
<p>6. 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</p>	

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officer, and appropriately adjust the scope of audit..	
7. Identify and document the need for specialist assistance based on the understanding of the labor charges (e.g. if the work is technical in nature such that the audit team might be unable to determine whether the employee is performing the effort being charged). Considering risk and materiality, prepare a detailed request for specialist assistance if required, and document.	
8. 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.	
9. Obtain a listing of employees by location. The listing should be obtained far enough in advanced to allow sufficient time for the FAO to perform the floor check on an unannounced basis. Determine if any assist audits are required for any off-site locations (CAM 6-405.3a). Request and track any assist audits in accordance with CAM 6-805.	
10. Determine if the contractor has an employee work-at-home program and assess the materiality of the costs incurred by employees in the program. See CAM 6-405.5.	
11. During the first visit to the contractor, ensure you hold an entrance conference with the appropriate contractor representative(s) to exchange preliminary information about the audit and to enable the contractor to provide a briefing about its labor charging and allocation policies.	
a. Obtain an understanding of the contractor’s timekeeping procedures and document the process.	
(1) Determine whether employee attendance is controlled by clock cards, timecards, other suitable time and attendance records, or are input and captured electronically.	
(2) Identify the process for controlling employee time records at each timekeeping station or the electronic timekeeping input and related records.	
(3) Determine the procedures for notifying the employee of the assigned job number and whether the procedures provide that all changes are properly initialed/approved by the employee and the designated approving supervisor.	
(4) Determine whether hours shown on the timecards or input electronically are reconciled periodically with hours	

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recorded on attendance and payroll records.	
(5) Determine whether there is a division of responsibility within the company between personnel responsible for the preparation and/or approval of time and attendance records and those responsible for preparation and distribution of payroll. Ensure a proper division of responsibility exists within the payroll department (CAM 6-406.2(10)).	
(6) Determine whether there is a division of responsibility between personnel having a part in the preparation and/or approval of time and attendance records and those responsible for operating within budgets. If a division of responsibility does not exist, the risk increases for affecting payroll in proportion to the number of personnel the employee/manager can influence.	
(7) Determine whether procedures have been established for coding and recording idle time.	
(8) Determine whether records of piece work and work performed under wage incentive plans are checked and controlled independently from production counts, approvals for allowances, and other operations.	
b. Discuss the general time period of audit performance.	
c. Advise the contractor that the evaluation will include unannounced interviews or floor checks.	
d. Request the contractor designate a representative and an alternate to accompany the audit team during the interviews or floor checks. A representative and alternate should be designated for each of the contractor's locations.	
e. Establish procedures for conducting interviews or floor checks. Inform the contractor that documentation will be requested from the employee during the interview or floor check to support the labor effort being charged/allocated to the Government.	
f. Request the contractor to provide a representative to facilitate the audit and for discussing audit progress and findings.	
g. Follow up with contractor management on corrective actions that address previous DCAA audit findings and recommendations.	
h. 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	

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<p>i. 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 documented in the working papers.</p>	
<p>12. 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)	

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<ul style="list-style-type: none"> • 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>	
<p>13. Prepare the Contractor Notification Letter to be provided to the contractor at the first unannounced floor check. Generally follow the guidance in CAM 4-302.3a; however, the notification letter should not be provided prior to the unannounced floor check since this would give advance notice of the floor check.</p>	

C-1	Floor Check Procedures	W/P Reference
	Version 3.21, dated April 2016	
	Note: Observations of work areas (floor checks) are appropriate when there is limited Government risk or vulnerability.	
	1. Obtain a control list or roster of employees assigned to the department or area to be checked. (The detail listing obtained in Section B-1, step 9 above, may be sufficient for your use.)	
	2. Depending on audit circumstances and objectives, randomly or judgmentally select employees to be floor checked. If random, use the procedures described in the Attribute Sampling Guidebook located on the DCAA intranet.	
	3. Gather appropriate background data on the selected employees, such as ID number, job classification, nature of work usually performed by the employee, and his/her department or cost center prior to conducting the floor check.	
	4. Prepare worksheets to use during the floor checks to help guide the questioning and facilitate the recording of the employee's responses. (See LBR - Floor Check Worksheet in “Other Audit Guidance” folder.)	
	5. Brief all audit team members on the overall audit objectives and necessary background information.	

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6. Obtain a plant layout and note the selected employees' locations.	
7. Floor check the employees selected.	
a. Identify each selected employee by verifying the employee's ID number and name to the control list or roster.	
b. Discuss the nature of the work being performed and observe the actual work performance to determine whether the employee is performing in the proper direct or indirect labor capacity and whether the time is being charged correctly. If the work is technical in nature, see B-1 Preliminary Step 7.	
c. Discuss the employee's timekeeping procedures to determine compliance with internal controls.	
d. Compare employee responses with previous data gathered. If inconsistent, ask appropriate follow-up questions.	
8. For selected employees not available for the interview, attempt to perform a follow-up interview. If a follow-up interview is not practical, perform additional audit steps to verify employee existence. These steps may include an observation of the employee's work area, an evaluation of the employee's personnel/security file, and/or a follow-up telephone interview.	
9. When an employee selected to be floor checked is not present at the normal work-site due to a work at home (WAH) program, the employee's supervisor should be interviewed. Discussions with the supervisor should concentrate on obtaining evidence of the employee's work and documented evidence of supervisory control over the employee's WAH schedule. The auditor should also communicate with the employee by telephone to determine if the employee has knowledge of WAH procedures, and discuss the specific type of work being performed, along with the related labor charge numbers. If the employee has a regularly scheduled meeting with the supervisor in the near future, any questionable procedures or practices identified by these steps can be discussed and verified with the supervisor and employee at that time. In addition, the individual's employment should be verified to the payroll/personnel records. See CAM 6-405.5.	
10. Obtain prompt explanations concerning all questionable procedures observed. This may require discussions with employee supervisors, contractor management, accounting, and other appropriate personnel.	
11. Reconcile the observations regarding the employees' labor charges with subsequent payroll and labor distribution records and follow-up on any discrepancies. For assist audits conducted at off-site locations, the auditors at the primary location are responsible for	

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reconciling the time charges collected at the time of the employees' floor checks to the labor distribution records when the official books and records are maintained at the primary location.	
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D-1	Development of Findings	W/P Reference
Version 3.21, dated April 2016		
1.	Analyze the data gathered during the floor checks and information previously gathered to establish the propriety of the labor charges.	
2.	Discuss audit results with the audit supervisor.	
3.	If the existence of high risk areas (CAM 6-404.7) are identified from the audit leads, consider expanding the audit and performing detailed employee interviews in accordance with the steps in the Pre-Interview Analysis (section E-1) and Conducting Employee Interviews (section F-1) to isolate the condition and more fully develop an audit position and cost impact. If conditions which raise a reasonable suspicion of fraudulent or other suspected irregular activities are disclosed and can not be resolved through audit, promptly report these as described in CAM 4-702.4.	
4.	If no high risk areas are identified, determine any cost questioned related to labor mischarges.	
5.	Incorporate any assist audits, update the FAO assist audit tracking system (CAM 6-805.), and follow-up on any outstanding assist audits.	

E-1	Pre-Interview Analysis	W/P Reference
Version 3.21, dated April 2016		
1.	Read CAM 6-404.8.	
2.	For each high risk area identified, determine the population of related employees.	
a.	Evaluate recent labor distribution documents and payroll runs to identify all employees charging labor effort or assigned to the risk area. (Consider using data retrieval software programs.)	
b.	Prepare a schedule of employees charging a major portion of their time to the risk area.	

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<p>c. Evaluate other relevant available documentation related to the risk area (i.e., organization charts, travel reports, contract files, work authorizations, material inspection and receiving reports, contract status reports, etc.). This evaluation may identify employees who have worked on the contract but have not charged labor effort to it.</p>	
<p>d. For employees identified in steps 2.a. and c. above, schedule labor time charges for an appropriate recent period of time.</p>	
<p>e. Determine if any significant trends, potential irregularities, or inconsistencies in charging patterns exist. Make note of these employees.</p>	
<p>f. For employees identified in step 2.e., inspect timecards, electronic labor input reports, or other labor entry source documents starting with the most current time period. Analyze each source document (i.e., timecard or electronic entry documentation) for patterns of consistent time splitting, changes in charging patterns, corrections, alterations, or indications that someone other than the employee is completing the timecard or electronically inputting the employee's time.</p>	
<p>g. For employees identified in step 2.f. above, evaluate and compare travel expense reports to labor distribution charges. Note any potential irregularities or inconsistencies between the charges and the expense reports.</p>	
<p>h. Understand the nature of the work of each contract/cost objective charged by these employees during the test period, the time spent on each job, and other relevant information.</p>	
<p>3. Select employees for interviews based on the results of the evaluation performed in step 2 above. Select those employees whose time charges and other documentation indicate a high probability of mischarging.</p>	
<p>4. If no employees in the risk area appear to have questionable time charges, discuss terminating the audit of the risk area with the audit supervisor.</p>	
<p>5. For those employees selected for interviews, prepare working papers to document the interview. Working papers should include, in addition to the items identified in step 6, the date of the interview, attendees, reason for employee selection, interview summary, audit conclusion, and any follow-up audit work necessary.</p>	
<p>6. Formulate the questions to be asked during each interview. The questions should be factual in nature, tailored to each employee to</p>	

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be interviewed, and designed to confirm or dismiss the suspected mischarge or more fully explore the high risk area. Avoid questions which solicit the employee's opinion. In addition to the specific tailored questions for each employee, general information should be solicited from each employee, such as;	
a. employee name and ID number	
b. current job title, position description	
c. current projects and period of performance	
d. description of work performed during the period under evaluation	
e. percentage of time spent on each project	
f. charge numbers/accounts used to record time spent on each project	
g. employee's timekeeping procedures, including any informal records used to record time and identify projects	
h. if applicable, the employee's supervisory responsibilities and related procedures, including assigning and reviewing the work of subordinates; reviewing, changing, and approving time charges; controlling project costs/budgets; approving overtime; etc.	
7. Discuss the questions to be asked each employee with the audit supervisor.	

F-1	Conducting Employee Interviews	W/P Reference
Version 3.21, dated April 2016		
1.	Read CAM 6-404.9.	
2.	Brief the other member(s) of the audit interview team on the purpose of each interview and the questions to be asked.	
3.	Conduct the interview at the employee's work location.	
4.	Ask the general and specific questions formulated for each employee to confirm or dismiss any suspected labor mischarging and to establish compliance with timekeeping controls.	
5.	Record the employee's complete responses and note any inconsistent comments or reactions. Ask appropriate follow-up questions to help clarify responses.	
6.	Obtain any available documentation to substantiate the employee's	

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labor efforts on each project.	
7. At the completion of the interviews, verify the work products observed in step 6 above by tracing them to contract requirements or have the contractor provide a description of how the interviewed employee’s work corresponds to contract requirements.	
8. If the interview provides indications that other persons within the department or work area may be involved in similar potential mischarging, conduct additional interviews before leaving the department/work area.	
9. If appropriate, question management, accounting, or other personnel to further clarify or confirm the employee's statements.	
10. Complete the employee interview working papers immediately after completing the interviews.	
11. Determine any cost questioned related to labor mischarges.	
12. If conditions which raise a reasonable suspicion of fraudulent or other suspected irregular activities are disclosed and can not be resolved through audit, promptly report these as described in 4-702.4.	
13. Incorporate any assist audits, update the FAO assist audit tracking system (CAM 6-805) and follow-up on any outstanding assist audits.	

A-1	Concluding Steps	W/P Reference
Version 3.21, dated April 2016		
1.	Read CAM 6-403.	
2.	After supervisory approval, conduct an exit conference 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	

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findings.	
4. Prepare a MEMORANDUM FOR RECORD documenting your results for incorporation in the future incurred cost audit. If the contractor does not agree with any identified questioned cost(s), draft a DCAA Form 1 in accordance with CAM 6-900. If the assignment is an assist audit, provide a copy of the memo to the requesting office.	
5. If material weaknesses/significant internal control deficiencies are disclosed, ensure that the findings have been fully developed (including the specific audit criteria are identified (i.e., DFARS 252.242-7006(c)(9)) and that a material weakness truly exists. If so, open a 11090 assignment to report the deficiencies. The deficiency report should be submitted to the contractor for comment.	
6. If applicable, schedule a follow-up evaluation to be performed within a reasonable period of time.	
7. Summarize and cross-reference working papers. Submit the working paper package for supervisory review.	
8. Update the ICQ or ICAPS, as appropriate. (MAAR 1)	