



**DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219**

IN REPLY REFER TO

OTS 730.5

October 20, 2010
10-OTS-069(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA**

SUBJECT: Attribute Sampling Policy

This memorandum provides significant revisions to DCAA policy for attribute sampling. The two areas affected by the new audit guidance include: (1) establishing sample size, and (2) reporting sample results in audit reports. These changes are effective November 30, 2010; however, early implementation is strongly recommended. In-process statistical sampling applications should be completed using the sampling plan and evaluation criteria as originally designed.

The regions are strongly encouraged to provide training on DCAA changes for attribute sampling. A PowerPoint based training presentation has been developed and will be made available for download from the DCAI Training Modules web site. We will issue a separate memorandum to the Regional Special Programs Managers and the Field Detachment, Chief, Technical Programs Division when the training package has been posted and is ready for downloading.

Establishing Sample Sizes.

All attribute sample planning will use a 90 percent confidence level to establish sample sizes. This applies to discovery, acceptance, and estimation sampling. The desired assurance, or confidence level (CL), represents the reliability an auditor wishes to place on the sample results. Since it is often easier to think in terms of risk, the complement of the confidence level (100 - CL) is sometimes used in the EZ-Quant software. This risk term is defined as the "Government's Risk" (GR). The GR shall be set at 10 percent or less when performing an attribute sample, which provides a CL of 90 percent. The same critical error rate and confidence level (i.e., 90 percent) used to establish the sample size must also be used to evaluate the attribute sample.

Audit Report Presentation.

Audit reports must now disclose whether the auditor used either a nonstatistical or statistical sample as a basis for the audit conclusions and will include details concerning the sample universe, the sampling method, and sampling unit. The report will state whether the statistical sampling results were projected to the sampling universe. Audit reports with

projections will include the confidence level percentage used to establish the sample size (i.e., 90 percent). For estimation sampling, the audit report will also identify the confidence interval

boundary error rates. For statistical samples, the report will state whether the results were projected to the sampling universe. If the results were not projected, the report should explain the reasons why the results could not be projected.

The following is a partial report note example from a discovery sampling application:

Condition. ...In order to test compliance with ABC's timekeeping procedures we chose to perform a discovery sample. To determine our sample size of 45 items, we used a Critical Error Rate (CER) of 5 percent and a confidence level of 90 percent. Therefore, our sample size was designed and evaluated with a 90 percent assurance rate to determine that the contractor's actual error rate for this attribute did not exceed a CER of 5 percent. All 2,798 labor corrections and transfers for FY 20XX were included in the universe. We randomly selected 45 labor corrections using a random number generator.

We found 22 percent, or 10 of the 45 correcting timesheets that we reviewed did not have an explanation as to why the entry was made...

Comment on Documentation.

The working paper documentation of audit sample applications has historically been identified as an area for improvement. GAGAS requires that auditors must prepare documentation in sufficient detail to provide a clear understanding of the work performed, the evidence obtained and its source, and the conclusion reached. The documentation should be in sufficient detail to enable an experienced auditor, having no previous connection to the engagement, to understand the nature, extent, timing, and results of procedures performed.

Field audit office personnel should direct questions regarding this memorandum to their regional offices. Regional offices should direct their questions to the Technical Audit Services Division, at (703) 767-2238, or email DCAA-OTS@dcaa.mil.

/s/

Nina I. S. Kissinger
Deputy Assistant Director
Operations

DISTRIBUTION: C