

Master Document – Audit Program

Activity Code 10160		Consulting Services
Version 5.1, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
<p>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.</p>		
<p>2. This audit program module would be performed under assignment code 10160.</p>		
References		
<p>1. FAR 31.205-33, "Professional and Consultant Service Costs."</p>		
<p>2. FAR 31.201-3, "Determining Reasonableness."</p>		
<p>3. FAR 31.201-4, "Determining Allocability."</p>		
<p>4. CAM 7-2105, "Professional and Consultant Costs."</p>		
<p>5. CAM 7-2116, "Lobbying Costs."</p>		
<p>6. CAM 4-702.3 and Figure 4-7-3 identify "Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas."</p>		

B-1	Preliminary Steps	WP Reference
Version 5.1, dated April 2004		
1. Research and Planning		
<p>a. Alert the appropriate contractor official of the purpose and scope of the impending audit, and request their support and cooperation.</p>		
<p>b. Review relevant Internal Control Audit Planning Summaries (General Accounting, General IT Controls, Indirect/Other Direct</p>		

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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.	
(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.	
(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 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?	

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(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 CAM 7-2116? 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 (See CAM 7-2116.3)?	
c. 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.)	
2. Entrance Conference and Preparation	
a. Conduct an entrance conference (CAM 4-302) and cover the following matters:	
(1) Discuss the FAR definition of consultant costs and the contractor's definition, and resolve any differences.	
(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.	
(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	

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any denials of access in writing and forward immediately to your RAM.) For each item listed, claimed or not claimed, obtain the following:	
<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 	
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 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) Internal audit reports providing coverage in this area. (If internal audit coverage can be relied on, duplication of such audit effort should be avoided.)	
(6) Any other documents, which provide evidence of the nature and scope of the services furnished and the reasonableness of the amounts, charged.	
(7) Advise the contractor that we will require access to vendor listings and IRS Forms 1099-Misc.	
(8) Request any data, reports, or listings supplied to CPAs, the SEC, or others of sensitive consultant costs.	
c. In planning and performing the examination, review the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:	
<ul style="list-style-type: none"> Handbook on Fraud Indicators for Contract Auditors, Section II.3 (IGDH 7600.3, APO March 31, 1993) located at 	

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www.dodig.osd.mil/PUBS/index.html , and	
<ul style="list-style-type: none"> • CAM 7-2105.1.d and CAM Figure 4-7-3. 	
Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.	

C-1	Evaluation of Consultant Costs	WP Reference
Version 5.1, dated April 2004		
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 unwilling to permit us access.	
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.	
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, 31.205-50 and 3.8).	
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	

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effort should be extended to cover all transactions with the consultant organization being examined.	
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.	
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.	
4. If the nature of the consulting service appears to be allowable, work products should be reviewed for the reasonableness of the fees charged.	
5. To the extent necessary, request technical assistance from the administrative contracting officer.	
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.	
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.	
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.	

A-1	Concluding Steps	WP Reference
Version 5.1, dated April 2004		
1.	Summarize audit findings and questioned cost.	
2.	Conduct an exit conference with the contractor in accordance with CAM 4-304.	

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<p>3. 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.</p>	
<p>4. Update the permanent file for the results of this audit.</p>	
<p>5. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:</p>	
<p>a. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.</p>	
<p>b. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.</p>	
<p>c. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.</p>	
<p>d. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.</p>	
<p>e. Ensure an electronic copy of the final Memorandum containing the supervisory auditor’s initials and date, cross-referenced to the</p>	

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<p>working papers, is included in the working paper package. The final draft Memorandum should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final Memorandum only due to minor administrative changes (spelling, format, etc.) made during final processing.</p>	
<p>f. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.</p>	
<p>g. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701-2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.</p>	
<p>h. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.</p>	
<p>i. Securely enclose the "backup" set of electronic files (CD) and any "official" set of hard copy in the hard copy folder.</p>	
<p>j. File the "official" set of electronic files in iRIMS (see iRIMS User Guide).</p>	
<p>k. <u>Do Not File Sensitive Audits in iRIMS:</u> Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.</p>	