

Master Document – Audit Program

Activity Code 12030	CPSR/Purchasing System Audit
Version 3.0, dated April 2004	
B-1	Planning Considerations
Purpose and Scope	
The major objectives of this audit are to:	
<ul style="list-style-type: none"> • Obtain a sufficient understanding of the contractor’s Purchasing System and related internal controls (including manual and computerized activities) to plan related contract audit effort. This requires that the auditor assess the adequacy of the contractor’s policies and procedures, whether they have been implemented, and if they are working effectively. 	
<ul style="list-style-type: none"> • Document the understanding of the Purchasing System internal controls in working papers and permanent files (see CAM 5-100). 	
<ul style="list-style-type: none"> • Test the operational effectiveness of Purchasing System internal controls. 	
<ul style="list-style-type: none"> • Assess control risk as a basis to identify factors relevant to the design of substantive tests. 	
<ul style="list-style-type: none"> • Report on the understanding of the internal controls and assessment of control risk and the adequacy of the system for Government contracts. 	
<p>This audit program is limited to the examination of the Purchasing System and related internal controls for major contractors and other contractors with substantial negotiated firm-fixed price contracts. Only those controls directly related to the contractor’s Purchasing System, as defined below, will be audited under this assignment. Controls for interrelated audit concerns regarding the adequacy of the contractor’s other major systems (i.e., MMAS, Indirect & ODC, etc.) will be audited under separate assignments. While the controls for these areas are not part of this audit, the results of all audits of these interrelated controls must be considered in forming an overall audit conclusion on the Purchasing System internal controls. The results of this audit should be commented on in reports on related audit areas.</p>	
<p>When performing an update or follow-up examination, the steps should be adjusted and tailored accordingly. To the extent possible, prior audit effort should be used as a basis for validating the contractor’s internal controls.</p>	
<p>Before beginning this examination, the auditor should be alert for internal control evaluations performed by the contractor or its external auditor relating to this area. In those cases where internal control evaluations have been performed, the auditor should follow guidance contained in CAM 4-1000, Relying Upon the Work of Others.</p>	
<p>Before performing any examination of internal controls, the auditor should determine that the</p>	

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<p>system contemplated for examination is material to the Government. Once it is determined that the system is material to the Government, the auditor should reassess the materiality of each section in the internal control audit before performing any audit steps in that section. The scope of any audit depends on individual circumstances. The auditor is expected to exercise professional judgment, considering vulnerability and materiality, in deciding the scope of audit to be performed.</p>
<p>The use of computers of all kinds in a contractor’s accounting and management systems is so pervasive it is unlikely any audit of them could be performed adequately without an examination of the internal controls over their automated aspects. Therefore, the auditor should become familiar with guidance contained in the Information System (IS) Auditing Knowledge Base that is contained on DCAA’s Intranet, prior to the initiation of this audit. In addition in some instances, the assistance of IT specialists may be required to adequately evaluate the automated aspects of the internal controls. In these cases, auditors should contact their regional offices to obtain the necessary expertise.</p>
<p>The internal control matrix shows the interrelationships among the control objectives, control activities, and audit procedures used in this audit program. The control objectives and the audit procedures have been fully integrated into this audit; therefore, the matrix is not needed unless it is desirable to see the associated control activities and the interrelationships in a matrix format.</p>

B-1	Preliminary Steps	WP Reference
Version 3.0, dated April 2004		
	<p>The contracting officer has primary responsibility for the contractor’s Purchasing System and the DLA CPSR (Contractor Purchasing System Review) team is responsible for performing contractor Purchasing System audits. DCAA’s audit objective is the adequacy of the internal controls over the system and the contractor’s monitoring of compliance with its controls. The DLA CPSR team normally covers most DCAA concerns regarding internal controls (See CAM, Appendix D-300). Therefore, it is extremely important that prior to commencing any examination of the contractor’s Purchasing System, the auditor coordinate with the contracting officer and the DLA CPSR team. If a CPSR is planned, the DCAA auditor should be a member of the CPSR team and the scope should be discussed. There should be mutual agreement on what additional audit steps will be necessary to address DCAA’s concerns. Any DCAA audit effort should be deferred until the next scheduled CPSR. If there is no CPSR scheduled in a reasonable time and the auditor feels the Government is at risk, these concerns should be elevated to the regional offices prior to any audit effort.</p>	
1.	Research and Planning	

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a. Become familiar with applicable sections of CAM 5-600 and any recent Headquarters guidance not incorporated in the CAM.			
b. Evaluate the extent and results of the contractor’s self-governance activities, internal and external audits, coordinated audits, etc., related to the Purchasing System. In those cases where internal or external audits have been performed, the auditor should follow the guidance contained in CAM 4-1000, Relying Upon the Work of Others. Document your evaluation.			
c. Evaluate the permanent file for:			
(1) Existence of contractor Purchasing System policies and procedures.			
(2) Organization charts depicting the functional areas responsible for the processing of Purchasing System data.			
(3) Material charging and distribution system flowcharts providing a pictorial overview of all manual and computerized processing steps.			
(4) Information systems documentation:			
(a) Pertinent record layouts of files created and/or used during the processing of purchasing related transactions.			
(b) Database table definitions.			
(c) Source documents.			
(d) Information on the conversion of documents to computer media.			
(e) Subsidiary or master files affected by the system.			
(f) Relevant reports, journals, and ledgers produced in the flow of information to the Purchasing System reports.			
(5) Employee awareness training programs.			
(6) Listings of current Government contracts.			
(7) Previous system audits performed. Check if the system is applicable, and if applicable, determine if it is relevant to the current system audit:			
	System	Applicable?	Relevant?
	Accounting		
	Billing		
	Budget and Planning		

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	Compensation			
	IT			
	Estimating			
	Indirect/ODC			
	Labor			
	Material			
	Purchasing			
(8) Audit lead sheets.				
(9) The analysis of the control environment and the results of any other audits, for internal control weaknesses that may impact this examination.				
<p>d. In planning and performing the examination, consider the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections II.2., IV.4., and IV.5., (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and • CAM Figure 4-7-3 and CAM 6-305. <p>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.</p>				
2. Entrance Conference and Preparation				
<p>a. Prepare a written memorandum to the contractor to arrange for an entrance conference, covering the areas highlighted in CAM 4-302 and any specific data or pertinent information not yet provided.</p>				
<p>b. Conduct an entrance conference as outlined in CAM 4-302, with particular emphasis on:</p>				
<p>(1) Requesting the contractor to provide, if applicable (see section E-1, step 4.), a demonstration of the Purchasing System transaction flow including data input, data processing, data output, and related internal controls.</p>				
<p>(2) Any changes in the material processing job stream since the</p>				

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last examination.	
(3) The contractor’s monitoring process to ensure that established manual and computerized controls are functioning as intended.	
(4) Any identified weaknesses which may have been reported and related follow-up actions taken.	
3. Other Preliminary Steps	
a. Determine the purchasing process employed by the contractor and to what degree a computerized system is used.	
b. Perform a high level cursory assessment to determine if the following exist:	
(1) A functional organization with defined organizational responsibilities.	
(2) A written description of the work flow in the material process.	
(3) Policies and procedures for effectively controlling the process.	
4. Initial Risk Assessment	
Using the information obtained in steps 1, 2, and 3, prepare an initial risk assessment to determine the scope of the audit (W/P B).	

C-1	Control Environment	WP Reference
	Version 3.0, dated April 2004	
	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of the Purchasing System internal controls.	
	1. Obtain a copy of the most recently completed ICAPS for the Control Environment and Overall Accounting controls. Consider the rationale behind any moderate or high-risk assessment ratings and determine the impact, if any, on the effectiveness of the Purchasing System internal controls.	

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2. If an examination of the control environment has not been recently performed, discuss all documented prior audit experience with the contractor, including permanent files, relevant audit reports and working papers, suspected irregular conduct (SIC) referrals and discussions with prior auditors. Obtain an understanding of the following factors:	
a. Integrity and ethical values.	
b. Commitment to competence.	
c. Board of directors and/or audit committee participation.	
d. Management’s philosophy and operating style.	
e. Organizational structure.	
f. Assignment of authority and responsibility.	
3. Document the overall assessment of the control environment and the impact that it has on the examination of the Purchasing System.	

D-1	Contractor Risk Assessment	WP Reference
	Version 3.0, dated April 2004	
	The auditor should develop a sufficient understanding of the risk assessment process currently employed by the contractor in terms of its identification, analysis, and management of risks relevant to the preparation of contract cost data.	
	1. Meet with responsible personnel to obtain an overview of the various risk factors considered by management.	
	2. Once the various risk factors are identified, obtain an understanding of how management identifies the risks, estimates the significance of risks, assesses the likelihood of their occurrence, and relates them to contract reporting.	
	3. If applicable, obtain an overview of any plans, programs, or actions management may initiate to address specific risks. Keep in mind that, depending on the nature of specific risks, management may elect to accept a given risk due to costs or other considerations.	
	4. Document your overall understanding of the contractor’s risk assessment practices.	

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E-1	Information and Communications	WP Reference
Version 3.0, dated April 2004		
<p>Information and communication processes consist of the methods and records established to record, process, summarize, and report contract cost data. The auditor should develop a sufficient understanding of the contractor’s information and communication processes (relevant to contract cost data) to identify significant classes of transactions and how they are initiated, processed, controlled, and reported.</p>		
<p>1. Since the accounting and IT systems are integral components of information and communication processes, obtain a copy of the most recently completed Internal Control Audit Planning Summaries for the Environment and Overall Accounting Controls and the IT System General Internal Controls. Evaluate the rationale behind any moderate or high-risk assessment ratings and determine the potential impact, if any, on the effectiveness of the Purchasing System internal controls. Document your evaluation.</p>		
<p>2. Evaluate relevant permanent files, prior audit working papers, and any prior contractor demonstrations of its Purchasing System information and communication processes. Document your evaluation.</p>		
<p>3. Determine if the contractor has made changes to the information and communication processes in its Purchasing System since the last demonstration. Evaluate the changes. If no prior systems demonstration was performed, have the contractor provide one. Contractor representatives providing the demonstration should possess a detailed knowledge of the Purchasing System. The demonstration provides the auditor an opportunity to query contractor personnel regarding internal controls and how they are monitored. The auditor should ensure that the demonstration addresses the internal control activities outlined in CAM 5-600.</p>		
<p>4. The contractor should include appropriate manual and computerized controls in its information processing that check for accuracy, completeness, and proper authorization of purchasing related transactions. Have the contractor identify and demonstrate controls related to each of the areas listed in a through e below. Compare the contractor disclosed controls with the generic access control listing contained in the referenced CAM section and identify any controls not incorporated in the application. Verify the existence and adequacy of the contractor disclosed controls. Discuss any apparent deficiencies with the contractor.</p>		
<ul style="list-style-type: none"> • Access (CAM 5-1406.1) 		
<ul style="list-style-type: none"> • Input (CAM 5-1406.2) 		
<ul style="list-style-type: none"> • Processing (CAM 5-1406.3) 		

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<ul style="list-style-type: none"> • Error Correction and Resubmission (CAM 5-1406.4) 	
<ul style="list-style-type: none"> • Output (CAM 5-1406.5) 	
<p>5. Selectively trace material transactions through the Purchasing System to validate your understanding of the information and communication processes in the Purchasing System. Discrepancies between your understanding and the contractor’s demonstration should be resolved prior to completing the remainder of this examination.</p>	
<p>6. Document your confirmed understanding of the Purchasing System information and communication processes and obtain a written confirmation from the contractor indicating that they agree with this understanding. This documentation will typically take the form of system flowcharts or narrative descriptions and can be prepared by the auditor or consist of documentation prepared by the contractor (see CAM 5-106).</p>	

F-1	Monitoring	WP Reference
	Version 3.0, dated April 2004	
	Monitoring is a process that assesses the quality of internal control performance over time. It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. The auditor should develop a sufficient understanding of the contractor’s ongoing monitoring activities and/or separate evaluations related to the Purchasing System internal controls.	
	1. Determine if ongoing monitoring procedures are incorporated into the normal recurring activities of the contractor’s organization. These procedures should include regular management and supervisory activities.	
	2. Where applicable, determine the extent of internal audit involvement in performing monitoring functions through separate evaluations.	
	3. Determine and document the extent of monitoring activities being performed by external parties.	
	4. Document your overall understanding of the monitoring activity being performed at the contractor’s location and determine the impact it will have on our examination of the Purchasing System.	

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G-1	Contractor Compliance, Training, Policies, and Procedures	WP Reference
Version 3.0, dated April 2004		
<p>The auditor should obtain an understanding of the contractor's control activities (policies and procedures) for each relevant Purchasing System control objective (sections G, H, I, J, K and L). A detailed understanding of control activities is essential to the assessment of control risk for each control objective. Purchasing system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in Internal Control Matrix (ICM-PURC). The audit procedures in this section, organized by control objective, are also included in the attachment.</p>		
<p>The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated and if reliance can be placed on such evaluations.</p>		
<p>The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in section E-1 above as well as those set forth below.</p>		
<p>In performing the following audit procedures to understand the contractor's control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor's control activities.</p>		
<p>The contractor performs internal audits/evaluations, conducts training and has policies and procedures for the Purchasing Department to ensure the integrity of the purchasing system. The following audit procedures are designed to gain an understanding of the contractor's control activities (policies and procedures) for the subject control objective. Refer to the Internal Control Matrixes (ICMs) to view the control objective, its associated control activities, and audit procedures in a matrix format. In determining the steps needed to obtain a sufficient understanding of the contractor's control activities, the auditor should utilize knowledge obtained in understanding the other components of the internal control (control environment, contractor risk assessment, information and communications, and monitoring). The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures set forth below.</p>		
1.	Determine whether any internal audits/management reviews of the Purchasing Department have been performed. Evaluate the results	

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	and note any deficiencies.	
2.	Determine if any required follow-up action was taken related to reported findings or recommendations, or why no actions were taken.	
3.	Adjust the scope of this audit based on the results of the internal audits or management reviews.	
4.	Obtain the contractor's purchasing policies and procedures. Verify that they include the items set forth in steps for the following control objectives:	
	<ul style="list-style-type: none"> • Purchase Orders and Subcontract Clauses 	
	<ul style="list-style-type: none"> • Management of Purchasing 	
	<ul style="list-style-type: none"> • Selecting the Source 	
	<ul style="list-style-type: none"> • Pricing and Negotiation 	
	<ul style="list-style-type: none"> • Subcontract Award and Administration 	
5.	Obtain a list of training provided to purchasing personnel. Evaluate the training materials to verify that the training covers Government purchasing regulations and contractor procedures.	

H-1	Purchase Orders and Subcontract Clauses	WP Reference
	Version 3.0, dated April 2004	
	The auditor should obtain an understanding of the contractor's control activities (policies and procedures) for each relevant Purchasing System control objective (sections G, H, I, J, K and L). A detailed understanding of control activities is essential to the assessment of control risk for each control objective. Purchasing system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the Internal Control Matrix (ICM-PURC). The audit procedures in this section, organized by control objective, are also included in the attachment.	
	The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated and if reliance can be placed on such evaluations.	
	The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in section E-1 above as well as those set forth below.	
	In performing the following audit procedures to understand the contractor's control activities, the auditor should recognize that while obtaining an	

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<p>understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor’s control activities.</p>	
<p>Purchase orders and subcontracts should contain all flow down clauses, including those terms and conditions required by the prime contract, as well as any clauses needed to carry out the requirements of the prime contract. This audit procedure is designed to gain an understanding of the contractor's control activities (policies and procedures) for the subject control objective. Refer to the Internal Control Matrixes (ICMs) to view the control objective, its associated control activities, and audit procedures in a matrix format. In determining the steps needed to obtain a sufficient understanding of the contractor's control activities, the auditor should utilize knowledge obtained in understanding the other components of the internal control (control environment, contractor risk assessment, information and communications, and monitoring). The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing adequate auditing procedures.</p>	
<p>Verify that the contractor ensures flow down of applicable prime contract terms and conditions in purchase orders and subcontracts (e.g., either the Government or contractor has access to the subcontractor's/intercompany books and records for audit, that billings include only allowable costs [See CAM 6-801.1 c.]).</p>	

I-1	Management of Purchasing	WP Reference
Version 3.0, dated April 2004		
<p>The auditor should obtain an understanding of the contractor's control activities (policies and procedures) for each relevant Purchasing System control objective (section G, H, I, J, K, and L). A detailed understanding of control activities is essential to the assessment of control risk for each control objective. Purchasing system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the Internal Control Matrix (ICM-PURC). The audit procedures in this section, organized by control objective, are also included in the attachment.</p>		
<p>The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated and if reliance can be placed on such evaluations.</p>		

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<p>The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in section E-1 above as well as those set forth below.</p>	
<p>In performing the following audit procedures to understand the contractor’s control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor’s control activities.</p>	
<p>The contractor should organize and administer the purchasing department to ensure the effective and efficient procurement of required quality materials and parts at the most economical cost from responsible/reliable sources. The following audit procedures are designed to gain an understanding of the contractor's control activities (policies and procedures) for the subject control objective. Refer to the Internal Control Matrixes (ICMs) to view the control objective, its associated control activities, and audit procedures in a matrix format. In determining the steps needed to obtain a sufficient understanding of the contractor's control activities, the auditor should utilize knowledge obtained in understanding the other components of the internal control (control environment, contractor risk assessment, information and communications, and monitoring). The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures set forth below.</p>	
<p>1. Determine whether the purchasing department is organizationally independent in order to allow it to operate at maximum effectiveness and make objective decisions.</p>	
<p>2. Verify that the contractor requires the following purchasing file data to be maintained:</p>	
<p>a. The purchase order.</p>	
<p>b. The purchase requisition.</p>	
<p>c. The request for quotation (RFQ).</p>	
<p>d. Copies of the vendors' quotes.</p>	
<p>e. A bid tabulation sheet that summarizes and compares vendor quotations.</p>	
<p>f. Certificates for the rent-free use of Government facilities.</p>	
<p>g. Vendor surveys or facilities capabilities reports.</p>	

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h. Source selection explanation.	
i. Price or cost analysis data.	
j. Negotiation summary.	
k. Basis for selection of contract type.	
l. Copies of technical data.	
m. Price redetermination or termination data.	
n. Correspondence between the purchasing department and the bidders.	
o. Evidence of Small and Disadvantaged Business enterprise consideration.	
p. Information concerning the use of special terms and conditions and approval thereof.	
q. Departmental and management approvals.	
r. Administrative Contracting Officer notification and consent.	
s. Certificate of current cost or pricing data if procurement meets the requirements.	
3. Verify that the contractor follows its make-or-buy program. Ensure that procedures are followed and decisions are documented.	
4. Verify that the contractor has a system of reports and controls that reflect performance and provides the means through which the purchasing department reports its performance to company management.	

J-1	Selecting the Source	WP Reference
Version 3.0, dated April 2004		
The auditor should obtain an understanding of the contractor's control activities (policies and procedures) for each relevant Purchasing System control objective (section G, H, I, J and K). A detailed understanding of control activities is essential to the assessment of control risk for each control objective. Purchasing system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the Internal Control Matrix (ICM-PURC). The audit procedures in this section, organized by control objective, are also included in the attachment.		
The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated and if		

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reliance can be placed on such evaluations.	
The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in section E-1 above as well as those set forth below.	
In performing the following audit procedures to understand the contractor’s control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor’s control activities.	
The contractor should select the most responsive and responsible sources for furnishing required quality parts and materials and promoting competitive sourcing among dependable suppliers to obtain the most reasonable prices from sources that meet contractor quality requirements. The following audit procedures are designed to gain an understanding of the contractor's control activities (policies and procedures) for the subject control objective. Refer to the Internal Control Matrixes (ICMs) to view the control objective, its associated control activities, and audit procedures in a matrix format. In determining the steps needed to obtain a sufficient understanding of the contractor's control activities, the auditor should utilize knowledge obtained in understanding the other components of the internal control (control environment, contractor risk assessment, information and communications, and monitoring). The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures set forth below.	
1. Evaluate the following as indication of the contractor's commitment to promote competition:	
a. reports to top management.	
b. existence of the historical records on parts and vendors.	
c. extent of market survey efforts.	
2. Verify the implementation of a current vendor performance rating system.	
3. Selectively test procurement files to ensure compliance with FAR requirements related to competition.	

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K-1	Pricing and Negotiation	WP Reference
Version 3.0, dated April 2004		
<p>The auditor should obtain an understanding of the contractor's control activities (policies and procedures) for each relevant Purchasing System control objective (section G, H, I, J and K). A detailed understanding of control activities is essential to the assessment of control risk for each control objective. Purchasing system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the Internal Control Matrix (ICM-PURC). The audit procedures in this section, organized by control objective, are also included in the attachment.</p>		
<p>The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated and if reliance can be placed on such evaluations.</p>		
<p>The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in section E-1 above as well as those set forth below.</p>		
<p>In performing the following audit procedures to understand the contractor's control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor's control activities.</p>		
<p>The contractor should ensure that some form of price or cost analysis is performed in connection with every purchasing action. The following audit procedures are designed to gain an understanding of the contractor's control activities (policies and procedures) for the subject control objective. Refer to the Internal Control Matrixes (ICMs) to view the control objective, its associated control activities, and audit procedures in a matrix format. In determining the steps needed to obtain a sufficient understanding of the contractor's control activities, the auditor should utilize knowledge obtained in understanding the other components of the internal control (control environment, contractor risk assessment, information and communications, and monitoring). The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures set forth below.</p>		
<p>1. Determine if the purchasing file contains appropriate cost/price analysis and technical evaluation (see "Management of Purchasing").</p>		

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2. Verify that the contractor has a system to negotiate and take advantage of quantity and prompt payments discounts. Selectively evaluate payments to determine that the system is working.	
3. Verify that guidelines are in place and being followed for determining that cost effective methods are used for processing the high volume of low dollar value orders and calls against blanket orders and open-end subcontracts. Include consideration of corporate wide purchase agreements, where appropriate.	

L-1	Subcontract Award and Administration	WP Reference
Version 3.0, dated April 2004		
The auditor should obtain an understanding of the contractor's control activities (policies and procedures) for each relevant Purchasing System control objective (section G, H, I, J, K and L). A detailed understanding of control activities is essential to the assessment of control risk for each control objective. Purchasing system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the Internal Control Matrix (ICM-PURC). The audit procedures in this section, organized by control objective, are also included in the attachment.		
The auditor should evaluate contractor internal and/or external audits to determine if any control activities have already been evaluated and if reliance can be placed on such evaluations.		
The auditor should recognize those aspects of the Purchasing System that are automated and should ensure that the related control activities adequately address this automation by performing the audit procedures in section E-1 above as well as those set forth below.		
In performing the following audit procedures to understand the contractor's control activities, the auditor should recognize that while obtaining an understanding of the other components of internal control (control environment, contractor risk assessment, information and communications, and monitoring), he/she is likely to have obtained some level of knowledge about control activities. The auditor should utilize this knowledge in determining the additional time needed to obtain a sufficient understanding of the contractor's control activities.		
The contractor ensures that proper types of subcontracts are selected and that there are controls, including oversight and surveillance, of subcontracted effort.		
1. Verify that guidelines are in place and followed, for determining the types of subcontracts awarded and under what circumstances.		

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2. Determine that the contractor notifies the Government upon award of an auditable subcontract or intercompany order (See CAM 6-801.1 b).	
3. Verify that the contractor obtains annual incurred costs proposals for auditable subcontracts/intercompany orders, assures the proposals are audited, and incorporates the audit results into billings and proposals to the Government.	
4. Determine that the contractor adequately monitors financial and technical performance.	

A-1	Concluding Steps	WP Reference
Version 3.0, dated April 2004		
1. Assessment of Control Risk		
	a. Considering all five components of internal control, assess control risk for each of the relevant control objectives. For each of the objectives, summarize the characteristics, which support the assessed level of control risk and specifically identify any internal control weaknesses or system deficiencies.	
	b. Determine if the system is adequate to reasonably assure proper pricing, administration, and settlement of Government contracts in accordance with applicable laws and regulations.	
	c. Based on the assessments above, determine the impact on the scope of other audits.	
	d. Update the Internal Control Audit Planning Summary (see CAM 3-305)	
	e. Coordinate the results of audit with the supervisor. The supervisor and the FAO manager should review and initial the ICAPS before the exit conference is performed. If it is determined that additional audit steps are needed, any additional planned audit effort should be accomplished as part of this examination or immediately thereafter. Any delays in completion of this audit effort should be documented and approved by management.	
2. Summary Steps		
	a. Prepare a draft audit report in accordance with CAM 10-400.	

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<p>b. Conduct an exit conference with the contractor in accordance with CAM 4-304.</p>	
<p>c. Finalize the audit report incorporating the contractor's response and audit rejoinder.</p>	
<p>d. If the contractor has EVMS covered contracts, provide comments in the audit report on whether any findings are likely to impact the contractor's EVMS (10-1204.5b). Discuss findings and recommendations relating to the EVMS with the Contract Administration Office EVMS Monitor prior to issuance of the report. Immediately evaluate the impact of these findings on specific EVMS covered contracts and provide the details in flash EVMS surveillance reports (11-209.2.e).</p>	
<p>e. Update the permanent file in accordance with CAM 4-405.1.b (MAAR #3).</p>	
<p>3. Closing Actions</p>	
<p>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. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.</p>	
<p>b. 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>c. 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>d. 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</p>	

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<p>[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>e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.</p>	
<p>f. 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>g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.</p>	
<p>h. 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>i. 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>j. 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>	

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k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).	
m. <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.	