

Master Document – Audit Program

Activity Code 17740		Preaward Survey of Prospective Contractor Accounting System
Version 5.0, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
<ul style="list-style-type: none"> • The major objectives of this audit are to obtain an understanding of the accounting system to appropriately complete the Preaward Survey of Prospective Contractor Accounting System, SF 1408, and to opine as to whether the design of the contractor’s system is acceptable for the award of a prospective Government contract. • If requested to perform a Preaward Survey of Prospective Contractor Accounting System Audit on a contractor that has an active Government contract, and a recent post contract award accounting system audit has not been performed, contact the requestor to ascertain if a post contract award accounting system audit report would be more useful. If a post contract award accounting system audit has been performed, consider providing a copy of the report to the requestor. Discuss with your supervisor. 		
References		
<ol style="list-style-type: none"> 1. CAM 5-200, “Pre-Award Surveys and Adequacy of Accounting System for Contractual Requirements” 2. FAR 9-105, “Procedures (for determining contractor qualifications)” 3. FAR 9.106, DFARS 209-106, “Preaward Surveys” 4. FAR 52.216-16, “Quarterly Limitation on Payments Statement” (FPI contracts); FAR 52.232-20 and FAR 52.232-21, “Limitation of Cost;” FAR 52.232-22(b), “Limitation of Funds.” 5. CAM 5-202.1, “Preaward Financial Capability Survey” 6. CAM 14-300, “Contractor Financial Capability Audits and Reporting” 		

B-1	Preliminary Steps	WP Reference
Version 5.0, dated April 2004		
1.	Research and Planning	

Master Document – Audit Program

<p>a. Review the audit request to ensure the audit scope addresses any customer concerns. If the contracting officer requests the company’s financial capability to be addressed during this audit, set up a separate Code 17600 – Financial Capability assignment to perform a financial capability risk assessment (CAM 14-300). If the audit request does not specifically ask for the financial capability to be audited as part of this audit, contact the contracting officer to determine if he/she wants a financial capability risk assessment performed. Notify the contracting officer of the commencement of the audit and the expected completion date (CAM 4-103).</p>	
<p>b. Obtain information on the proposed Government contract (e.g., type and amount of contract, special contract provisions, etc.).</p>	
<p>c. If a previous preaward accounting system survey was completed, summarize any accounting system deficiencies found in the permanent file and the impact of these deficiencies on this audit. If a perm file does not exist or is not current, provide a list of items (e.g., organizational charts, financial statements, policies and procedures, etc.) to be obtained during the field visit to the contractor in advance of the entrance conference, so the contractor has additional time to gather the information. Update the permanent file (See CAM 4-405.1).</p>	
<p>d. If the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B (section 5) the type/brand of the accounting software used and your understanding of the design of the system. Determine if the controls are adequately designed to ensure the reliability of the computer based data.</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 10-210.4a.</p>	
<p>e. 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, Section II. (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and • CAM Figure 4-7-3. <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 (see CAM 4-702). If no risk indicators are</p>	

Master Document – Audit Program

identified, document this in working paper B.	
2. Entrance Conference and Preparation	
Arrange and conduct an entrance conference (see CAM 4-302). Explain to the contractor's representatives that as issues are developed during the audit, they will be furnished to the contractor for fact-finding and timely resolution. This process should facilitate reduced audit cycle time and efforts to respond to and issue the audit report.	
3. Initial Risk Assessment	
Using the information obtained in steps 1 and 2, prepare an initial risk assessment to determine the scope of the examination (W/P B).	

C-1	Preaward Survey (SF 1408)	WP Reference
	Version 5.0, dated April 2004	
	Prepare “Preaward Survey of Prospective Contractor Accounting System” (SF 1408) by completing the following audit steps:	
	1. Generally Accepted Accounting Principles. Through observation or discussion, verify that the contractor’s accounting system is in accordance with GAAP. Determine if the contractor has or intends to have an accrual basis accounting system. (SF 1408, Section I)	
	2. Proper segregation of costs. Verify that controls exist to preclude direct charging of indirect expense and indirect charging of direct contract costs. (SF 1408, Section II, 2a)	
	3. Direct costs by contract. Verify that the contractor has either a subsidiary job costs ledger or account receivable ledger which accumulates costs by contract at a level of detail consistent with that used by the prospective contractor in its proposal. (SF 1408, Section II, 2b)	
	4. Allocation of indirect costs. Verify that the indirect costs are accumulated in logical groupings and determine that the groupings are allocated based on benefits accrued to intermediate and final cost objectives. Is the cost accounting system formally documented, with a written description of the contents of bases and pools? (SF 1408, Section II, 2c)	

Master Document – Audit Program

<p>5. Accumulation of costs under general ledger control. Verify that the contractor’s job cost ledger and other books of account are reconcilable and currently posted to the general ledger control accounts. (SF 1408, Section II, 2d)</p>	
<p>6. Timekeeping system. Verify that labor is charged to intermediate and final cost objectives based on a timekeeping document (paper or electronic timecards) completed and certified by the employees and approved by the employees’ supervisors. (SF 1408, Section II, 2e)</p>	
<p>7. Labor distribution. Verify that labor cost distribution records are reconcilable to payroll records and that labor distribution records trace to and from the cost accumulation records in labor subsidiary or general ledger accounts. (SF 1408, Section II, 2f)</p>	
<p>8. Interim determination of costs. Determine that the contractor posts contract costs at least monthly to books of account. (SF 1408, Section II, 2g)</p>	
<p>9. Exclusion of Unallowables. Evaluate the contractor’s plan to identify and exclude unallowable cost if the contract is awarded. (FAR 31.201-6) (SF 1408, Section II, 2h).</p>	
<p>10. Costs by Contract Line Item: Can the system be expanded to the requisite level of detail, and does the contractor have procedures to determine what this level might be? (SF 1408, Section II, 2i)</p>	
<p>11. Preproduction Costs (Applies primarily to manufacturing contracts): Are these costs routinely segregated to assist in repricing or follow-on contract pricing? (SF 1408, Section II, 2j)</p>	
<p>12. Limitation of Costs: Can the interim indirect expense rates be readily calculated from the books of accounts, and are the interim rates routinely monitored?</p> <p>Who is responsible for monitoring total contract expenditure against contract limitations on price or cost, and how frequently is this reviewed? Are controls in place to ensure compliance with the reporting requirements of FAR 52.216-16 or FAR 52.232-20, -21 and -22? (SF 1408, Section II, 3a)</p>	
<p>13. Billings (e.g. progress payments, public vouchers): Does the contractor have controls or procedures that would provide that interim billings of direct cost are prepared directly from the books and records, excluding unallowable costs. Does the contractor have procedures to ensure that subcontractor and vendor costs are only included in billings if payment to the subcontractor or vendor will be made in accordance with the terms and conditions of the subcontract or invoice and ordinarily within 30 days of the contractor’s payment request to the Government? Can billings be reconciled to the cost accounts for both current and cumulative amounts claimed? (CAM 6-</p>	

Master Document – Audit Program

1006) (SF 1408, Section II, 3b)	
14. Adequate, Reliable Data: Is the contractor’s system capable of producing cost information at a sufficient level of detail for use in pricing follow-on contracts. (SF 1408, Section II, 4)	
15. Accounting system in operation. Is the accounting system in full operation? If not, which portions are in operation and what is the status of implementing the full accounting system? (SF 1408, Section II, 5)	

D-1	Internal Control Questionnaire (ICQ)	WP Reference
Version 5.0, dated April 2004		
Prepare or update ICQ, as appropriate, based on the results of this audit. Once complete, file document in Permanent File for future use.		

A-1	Concluding Steps	WP Reference
Version 5.0, dated April 2004		
1. Summary Steps		
a. If there are open or partially completed items, follow-up and resolve them at this time and summarize audit results.		
b. Complete, index and cross reference working papers.		
c. Discuss results of audit with your supervisory auditor. Hold and document an exit conference.		
d. Take appropriate action to effect correction of noted deficiencies. This may include additional evaluation under an assignment in another audit area, noncompliance or system deficiency reports, cost suspension or disapproval, etc.		
e. Prepare draft report and SF 1408 to be furnished as part of the audit report.		
f. Update the permanent file.		
2. Closing Actions		

Master Document – Audit Program

<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 [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</p>	

Master Document – Audit Program

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