

Master Document – Audit Program

Activity Code 19100		Adequacy of Initial Disclosure Statement
Version 2.0, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
To provide general objectives to be considered in auditing an initial D/S for adequacy. The compliance audit of an initial disclosure statement is not covered by this program.		
NOTE: This program does not replace individual auditor judgment and therefore, should be tailored to the audit scope of the particular assignment. The revised audit program must reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment.		
References		
1. CAM, Chapter 10, Section 8		
2. CAM, Chapter 8		
3. CAS Board Rules, Regulations, and Standards		
4. DoD CAS Working Group Guidance Papers 76-6 and 77-20		
5. 48 CFR 9903.202		

B-1	Preliminary Steps	WP Reference
Version 2.0, dated April 2004		
1	Upon receipt of an initial D/S, coordinate the audit report due date with the cognizant Federal agency official (CFAO). Advise the CFAO of any delays encountered during the audit. This is especially important for initial D/S since an adequacy determination is a condition of contract award. When time constraints are foreseen, request the contractor to submit draft segments of the D/S for advance evaluation.	
2	If the organization being examined is a joint venture, teaming arrangement, or contractor wholly-owned subsidiary or division, read CAM 7-1800.	
a	Determine the need for a CAS Disclosure Statement in accordance	

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with CAM 7-1810.2.	
b Determine the actual relationship between the contracting organizations using the criteria in CAM 7-1807.	
c Determine if the contractor is proposing to and/or is accumulating and allocating costs consistent with the actual relationship, e.g., if the actual relationship more closely resembles that of a prime contractor/subcontractor then costs should be allocated consistent with this type of relationship.	
3 Briefly review the D/S to determine if it appears to be complete. If it is obviously incomplete, report it to the CFAO. Coordinate with the contractor to determine if any modifications are being contemplated which would affect the current audit.	
4 Ascertain whether the initial disclosure statement submission will affect other current audit assignments, such as price proposal or forward pricing rate proposal.	
5 Initial D/S submissions will usually be examined for adequacy before compliance. The compliance audit should be performed at a later date so that the report on adequacy will not be delayed. However, the initial compliance audit should be completed within 60 days after CFAO determination of adequacy (CAM-8-303.2).	
6 Request assist audits, if needed.	
7 Materiality is a prime consideration in determining the extent of disclosure. If an area is not being audited in depth because of materiality considerations, the working papers should document the restricted scope.	
8 In planning and performing the examination, review the fraud risk indicators in CAM Figure 4-7-3 for applicability to this audit. Document in working paper B any identified fraud risk indicators and your response/actions to those 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.	
9 If the contractor is classified as non-major (where ICAPS have not been completed) and if the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2:	
a. The audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	

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b. The procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or	
c. The tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data.	
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 and 10-804.4.	

C-1	Evaluation of Adequacy	WP Reference
Version 2.0, dated April 2004		
1.	Identify those accounting practices which have the greatest impact on Government contracts. Emphasis of the audit should be on such identified practices.	
2.	Audit D/S interrelationships as listed below to assure internal consistency:	
a.	If item 1.4.0 is marked A or B, item 2.2.1 or 2.2.2 should be marked A, and/or item 2.5.0 should be coded D in at least one column.	
b.	Section 2.4.0 should be completed, only if line A of item 2.2.1 or 2.2.2 is marked.	
c.	Section 2.6.0 should be completed, only if one or more columns in item 2.5.0 were marked D.	
d.	If item 2.2.2 is marked A, B, C, D, or Y, item 3.2.1(f) must be marked with a code other than Z.	
e.	If item 2.7.1 is marked with a code other than Z, item 3.2.3(v) should be marked D or E.	
f.	If item 3.2.1(b) is marked other than Z, item 5.5.0(a) must be completed.	
g.	Items 3.2.3(l) and (m) must be marked other than F or Z if item 4.5.0(b) is marked A, B, C or D.	
h.	If item 3.2.3(w) is marked with a code other than Z, item 6.3.0 cannot be marked Z.	
i.	If item 4.3.0, column (3), is marked with a rate code A, item 4.4.0 cannot be marked Z.	

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j.	If item 4.6.0 is marked A, the G&A pool described in item 4.2.0 must include IR&D/B&P functions and activities.	
k.	If item 4.6.0 is marked B, one of the pools listed in item 4.1.0 must include the IR&D/B&P pool.	
l.	If item 3.2.2(f) is marked other than Z, item 7.1.0 cannot be marked Z.	
m.	If item 3.2.2(g) is marked other than Z, item 7.2.0 cannot be marked Z unless the plan is reportable under item 7.3.0.	
n.	If item 3.2.2(h) and/or (i) are marked other than Z, item 7.3.0 must be marked A.	
o.	If item 3.2.2(j) is marked other than Z, item 7.4.0 and/or 7.5.0 must be marked A.	
p.	If one of the lines in 7.1.0.A is marked, item 7.1.2 cannot be marked Z.	
q.	If one of the lines in 7.1.0.B is marked except 7.1.0.B.2.b or 7.1.0.B.2.c, item 7.1.3 cannot be marked Z.	
r.	If item 7.1.0.B.2.b or 7.1.0.B.2.c is marked, item 7.1.2 cannot be marked Z	
s.	If item 7.2.0 is marked other than Z, items 7.2.1 and 7.2.2 must be completed.	
t.	If item 7.3.0 is marked A, item 7.3.1 must be completed.	
u.	If item 7.4.0 is marked A, items 7.4.1 and 7.4.2 must be completed.	
v.	If item 7.5.0 is marked A, item 7.5.1. must be completed.	
w.	If item 7.6.0 is marked A, item 7.6.1 must be completed.	
x.	At least one of items, 8.3.1, 8.3.2, or 8.3.3 must be completed if this part is being completed by corporate, group, or home office.	
y.	If item 8.2.0 is marked other than Z, the corresponding part(s) (i.e., Parts V, VI or VII) of the disclosure statement must be completed	
3.	Determine if the particular D/S item is adequately described (i.e., current, accurate, and complete) and document your working papers accordingly. This determination should first be attempted using data existing in your current files. If insufficient information exists in the files to determine the adequacy of a D/S item, then perform any additional audit steps necessary to verify the adequacy of the D/S item.	
a.	A disclosure statement item is "current" if it describes the current	

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accounting practices which the contractor intends to follow for estimating, accumulating and reporting costs associated with covered contracts.	
b. An item is "accurate" if it correctly, clearly and distinctly describes the actual method of accounting the contractor uses or intends to use on covered contracts.	
c. An item is "complete" if it clearly describes the cost accounting practices the contractor intends to use and gives you sufficient information to fully understand the accounting system being described.	
When a particular item is adequately described (i.e., current, accurate, and complete) mark it accordingly and cross-reference it to related audit files.	
4. If the description is inadequate, document the reasons for the inadequacy.	
5. If insufficient information is available to form an opinion, mark the item(s) for additional follow-up. Evaluate additional contractor records to verify the adequacy and accuracy of the accounting practice(s).	
6. Examine closely for any disclosed practices which are different from established practices. The contractor may intend to make an accounting practice change.	
7. Coordinate significant or unusual issues with the Supervisor or the FAO technical specialist.	
8. Discuss with the contractor those items that you intend to recommend to the CFAO as inadequate or that may constitute an accounting practice change.	
9. If part of a CAC/CHOA network, coordinate exceptions with the CAC/CHOA to assure consistent audit positions. In addition, furnish a copy of the D/S to the CAC/CHOA for consistency considerations.	

A-1	Concluding Steps	WP Reference
	Version 2.0, dated April 2004	
	1. Summarize the result of audit	
	2. Discuss results with the supervisor and the FAO technical specialist.	
	3. Prepare draft audit report in accordance with CAM 10-804.	
	4. Hold an exit conference with the contractor and provide a draft report	

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<p>to the contractor for comments in accordance with CAM 4-304.</p>	
<p>5. Finalize audit report incorporating the contractor’s response and audit rejoinder, if applicable.</p>	
<p>6. Update the permanent files, e.g., ICAPS or ICQ, and Mandatory Annual Audit Requirements (MAARs) schedules, as appropriate.</p>	
<p>7. Schedule the compliance audit of the initial disclosure statement. This audit should be scheduled for completion within 60 days after the CFAO has made a determination of adequacy.</p>	
<p>8. 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</p>	

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<p>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>	
<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,</p>	

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<p>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>	
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