

**Survey of Contractor's Organization,
Accounting System and System of Internal Controls (ICQ)
Contractors with CCFY Dollars Between \$15 Million and \$90 Million**

PURPOSE. This questionnaire provides the basis for documenting the auditor's understanding of the entity's internal control components and is used to plan the audit. Five components of internal control are applicable to the audit of every entity: Control Environment; Contractor's Risk Assessment; Information and Communications; Monitoring; and Accounting System Control Objectives and Activities.

APPLICABILITY. This questionnaire is designed to assist the auditor in obtaining an understanding of internal controls and assessing control risk at non-major contractors with ADV between \$15 million and \$90 million. For contractors with ADV less than \$15 million, the ICQ or alternative procedures may be used, provided they adequately document the required understanding of the internal controls (CAM 5-111.1.a).

PROFESSIONAL REQUIREMENTS. GAGAS Chapter 4 requires the auditor to follow the field work standard on Internal Control which states "A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed." It also requires that the auditor, as a minimum, follow the AICPA standard *Consideration of the Internal Control Structure in a Financial Statement Audit* (SAS 55, as amended by SAS 78 included in the AICPA *Professional Standards*, vol. 1, AU sec. 319). GAGAS Chapter 4 also incorporates SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*, which requires the auditor to assess the risk that the contractor's submissions are materially misstated due to fraud.

COMPLETION REQUIREMENTS. The ICQ should be completed/updated as part of the auditor's periodic visits to non-major contractors with ADV between \$15 million and \$90 million since the Mandatory Annual Audit Requirements (MAARs) 1 and 3 applicability and materiality requirements in CAM 6-105.2b are presumed. A new ICQ should be completed every year if a field visit is required as part of a current audit.

INSTRUCTIONS FOR COMPLETION OF THE ICQ

The ICQ is composed of Parts A through D. Part A, Basic Organization, allows the auditor to obtain a general understanding of the contractor's structure, size, and complexity. Parts B through D incorporate the five components of internal control that are applicable to the audit of every entity: Control Environment; Contractor's Risk Assessment; Information and Communications; Monitoring; and Accounting System Control Objectives and Activities. The ICQ questions or control activities were selectively obtained from the DIIS Internal Control Matrices (ICMs) to assist us in documenting the internal controls at non-major contractors.

PROCEDURES FOR OBTAINING UNDERSTANDING. In obtaining an understanding of controls that are relevant to audit planning, the auditor should perform procedures to obtain sufficient knowledge about the design of the relevant controls pertaining to each of the five

internal control components and determine whether they have been placed in operation. This knowledge is ordinarily obtained through previous experience with the contractor and through procedures such as inquiries of appropriate management, supervisory, and staff personnel; inspection of the contractor's documents and records; and observation of contractor activities and operations. The form and extent of this documentation is influenced by the size and complexity of the contractor, the auditor's previous experience with the contractor, the nature of the particular controls, and the nature of the contractor's documentation of specific controls (AU 319.58).

RELATIONSHIP BETWEEN THE ICQ AND THE CONTROL RISK ASSESSMENT.

The purpose of the ICQ is to document the auditor's understanding of the contractor's system of internal controls to plan the audit. Frequently, at nonmajor contractors, the auditor assesses control risk at the maximum (high) because it is more efficient to perform substantive tests for significant and sensitive accounts than to test the effectiveness of the contractor's internal controls (CAM 5-111.2d.). If the auditor decides that it is more efficient to test the controls, the ICAPS internal control program for the specific system (e.g., accounting, estimating, billing, etc.) must be used. In this case, the auditor should also use the ICAPS form(s) to summarize the results of the ICAPS internal control audit(s) performed and the ICQ to document the understanding of the internal controls system(s) not tested.

APPENDIX- FAR COST PRINCIPLES ASSESSMENT. The completion of the FAR Cost Principles Assessment is required by Part B, Step 2.c. of the ICQ, as part of the documentation of understanding of internal controls for incurred cost audits. Completion of the assessment is optional for all other assignments.

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Survey of Contractor's Organization,
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Contractor's with CCFY Dollars Between \$15 Million and \$90 Million

PART A – BASIC ORGANIZATION

(Prepare a Part A for each Division)

Date Prepared: _____

Auditor: _____

1. Contractor's Name _____

2. Division name, if applicable _____

3. Address _____

4. Telephone No. _____ 5. FAX No. _____

6. Point of Contact (Accounting) _____

7. Position Description _____ 8. E-mail address _____

9. Point of Contact (Contracts/Proposals) _____

10. Position Description _____ 11. E-mail address _____

12. Type of Organization:

a. Corporation
 Closely Held Family, or Publicly Held
State of Incorporation _____ Date _____
Listed on the _____ Stock Exchange _____
Stock Issued:
Total Shares of Stock Issued _____
Major Stockholders and Number of Shares _____
Shares of Stock Held by Officers of the Corporation _____

b. Partnership

PART A – BASIC ORGANIZATION

(Prepare a Part A for each Division)

- (1) Partners' Names _____
- (2) Basis for Distribution of Profits and the Amount of Profit _____
- (3) Sharing for Each Partner _____

c. Division of _____

d. Recent Business Combinations, e.g., Mergers, Acquisition, Divestiture

e. Other _____

13. Is any portion of this division's records maintained at other locations?

- a. Identify locations(s) _____
- b. Identify cognizant audit office(s).
(Include corporate HQ) _____

14. Contractor's fiscal year under review _____ Fiscal Year End _____

15. Major Product or Services _____

- Manufacturing Service Construction Other

16. Brief Description of Products

Manufactured or Service _____

17. Breakdown of Sales - % or \$ (Most Recent Complete FY)

			Federal		
			Govt.		
<u>Total Sales</u>	<u>Dollars (in000)</u>	<u>Percent</u>	<u>Sales</u>	<u>Dollars (in000)</u>	<u>Percent</u>
DoD- Domestic			CPFF / CPAF T&M / Labor		
DoD-FMS			Hour		
NASA			FFP FPIF /		
Other Govt.			FPAF		
Commercial			Other		
Totals			Totals		

18. Outside Auditors:

- a. Name of Auditors _____
- b. Service(s) Provided _____

PART A – BASIC ORGANIZATION

(Prepare a Part A for each Division)

19. Internal Auditors:

- a. Functionally Independent? Yes No
- b. Recent audits performed by internal auditors: _____
- c. Are internal audits available for DCAA review? Yes No
- d. Internal audits reviewed by DCAA? _____

20. Cost Accounting Standards (CAS)

- a. Number of CAS Covered Contracts Full Coverage Modified Coverage _____
- b. CASB Disclosure Statement? Yes No Date _____
- c. D/S considered adequate? Yes No Date _____

21. Earned Value Management (EVM) and Other Program Management System Reporting Requirements

- a. Number of contracts with EVM requirements (DFARS 252.234-7001) _____
- b. Number of contracts requiring Cost Performance Report (CPR) (DD Form 2734) or equivalent: _____
- c. Number of contracts requiring Cost/Schedule Status Report (C/SSR) (DD Form 2735) or equivalent: _____
- d. Number of contracts requiring Contract Fund Status Report (CFSR) (DD Form 1586) or equivalent: _____
- e. Number of contracts requiring Contractor Cost Data Report (CCDR) (DD Forms 1921, 1921-1 and 1921-2) or equivalent: _____

22. Location of current Contractor Organization and System Appendix _____

23. Plant and Facilities Owned Leased Other _____

- a. If leased, is there any relationship between the lessee and lessor? Yes No
- b. If Yes, explain the relationship _____

24. Contractor employees and government sales (in \$000) for on site and off site locations

NO. OF EMPLOYEES **TYPE OF GOVERNMENT CONTRACTS**

PART A – BASIC ORGANIZATION

(Prepare a Part A for each Division)

LOCATION **DIR.** **INDIR.** **CPFF/CPAF** **FFP** **T & M** **OTHER**

25. If the contractor has a Work At Home (WAH) program, indicate:

- a. the number of employees participating in the program _____
- b. the dollar amount of WAH labor for the most recent complete fiscal year _____

26. Names and titles of Principal Executives, Time Devoted to Business and Salary

NAME **TITLE** **% OF TIME** **SALARY**

27. Value of pension assets and pension liabilities _____

28. Information on contracts awarded during the previous fiscal year.

CONTRACT NUMBER	AWARD DATE	AMOUNT	CONTRACT TYPE	SUBJECT TO TINA?	
				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				<input type="checkbox"/> Yes	<input type="checkbox"/> No

PART B - CONTROL ENVIRONMENT AND OVERALL ACCOUNTING SYSTEM				
	Yes	No	NA	W/P Ref.
1. Does management promptly correct deficiencies noted in external CPA's management letter on internal controls and in DCAA internal control audits?				
2. Does the contractor maintain written policies and procedures to describe:				
a. The assignment of authority and areas of responsibility so that there is adequate segregation of duties.				
b. The general accounting system.				
c. Identification and exclusion of unallowable costs (If the auditor is currently performing an incurred cost audit, the attached FAR Cost Principle Assessment must also be completed).				
d. Direct/Indirect charge practices.				
e. Preparation of incurred cost submissions and forward pricing proposals.				
f. Allocation of indirect costs to final cost objectives.				
g. Approval and documentation of journal entries.				
h. Establishment of account numbers.				
i. Approvals for establishing contract charge numbers.				
j. Allocation of income, rebates, refunds, allowances or other miscellaneous credits.				
3. Are the contractor's cost accounting records reconciled to and controlled by the general accounting system on a current basis, i.e., postings are made at least monthly?				
4. Does the contractor's system identify costs by contract (e.g., job cost ledger)?				

PART C - CONTRACTOR'S RISK ASSESSMENT, INFORMATION AND COMMUNICATIONS, AND MONITORING				
	Yes	No	NA	W/P Ref.
CONTRACTOR'S RISK ASSESSMENT				
1. Does the contractor have a risk assessment process for identification, analysis, and management of risks relevant to the preparation of submissions to the government in accordance with Federal government regulations?				
2. Has any current or previous assignment identified the contractor's failure to properly assess the risk of having noncompliant submissions?				
INFORMATION AND COMMUNICATIONS				
1. Does the contractor have written policies and procedures for the IT system that include appropriate manual and computerized control procedures to:				
<ul style="list-style-type: none"> • initiate, record, process, and report the contractor's transactions and journal entries (as well as events and conditions) from their occurrence to their inclusion in the accounting records; 				
<ul style="list-style-type: none"> • enter transaction totals into the general ledger; 				
<ul style="list-style-type: none"> • record recurring and nonrecurring adjustments or reclassifications if they are not recorded through formal journal entries? 				
2. Do the contractor's policies and procedures address the individual roles and responsibilities pertaining to internal controls over accounting information?				
3. Does the contractor disseminate its policies and procedures to its employees?				
4. Has any current or previous assignments identified the contractor's failure to properly implement any of these internal control procedures?				
MONITORING				
1. Does the contractor have ongoing monitoring procedures and/or separate internal control reviews/audits to ensure that internal controls are operating as intended and that they are modified as appropriate for changes in conditions?				
2. Has any current or previous assignment identified the contractor's failure to monitor the effectiveness of internal control procedures?				

PART D. ACCOUNTING SYSTEM CONTROL OBJECTIVES AND ACTIVITIES				
LABOR SYSTEM	Yes	No	NA	W/P Ref.
1. Does the contractor have a training program to reasonably assure that all employees are aware of the importance of proper time charging?				
2. Do the contractor's written policies and procedures provide labor documentation/work descriptions that identify the work to be performed, and are labor charges tracked to a final cost objective, whether allowable or unallowable/direct or indirect?				
3. Does the contractor maintain written timekeeping policies and procedures to reasonably assure that labor hours are accurately recorded and corrections are documented, including authorizations and approvals?				
MATERIALS/PURCHASING SYSTEMS	Yes	No	NA	W/P Ref.
Does the contractor maintain written policies and procedures to describe the major manual and automated systems that comprise the material management and accounting system?				
ESTIMATING	Yes	No	NA	W/P Ref.
Does the contractor have written estimating policies and procedures to address employee training, assignment of authority and responsibilities, cost estimate development, and the estimating system process, activities, and functions?				
BILLING SYSTEM	Yes	No	NA	W/P Ref.
Does the contractor have and disseminate written billing policies and procedures which address employee training, contract briefing to identify special billing provisions and limitations, and management review of billings?				
PLANNING/BUDGETING	Yes	No	NA	W/P Ref.
Does the contractor have written policies and procedures for the planning and budgeting system, which include the formal assignment of duties and responsibilities and a description of the system?				
COMPENSATION	Yes	No	NA	W/P Ref.
Do written policies and procedures for compensation exist to include:				

PART D. ACCOUNTING SYSTEM CONTROL OBJECTIVES AND ACTIVITIES				
• a salary structure and administration;				
• a description of fringe benefits provided to employees; and				
• a system for determining pay increases, bonuses, and promotions?				
OVERALL ACCOUNTING SYSTEM CONTROL OBJECTIVES AND ACTIVITIES				
	Yes	No	NA	W/P Ref.
Has any current or previous assignment identified the contractor's failure to properly implement any of its internal written control procedures in Part D above?				

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FAR COST PRINCIPLE ASSESSMENT

Directions: This FAR Part 31 cost principle assessment should be completed based on your knowledge of the contractor's practices and procedures (i) as documented in previous working paper files, (ii) as a result of inquiry of appropriate contractor management, supervisory, and staff personnel; or (iii) as a result of observing contractor operations.

The questions are designed so that a YES answer will generally require follow up during the next incurred cost or proposal audit. The questions relate to sensitive cost issues and do not replace the requirement that the auditor have detailed knowledge of the cost principles and perform any audit procedures needed to determine compliance with all significant costs being audited at the contractor.

Those CAS standards that relate to the FAR cost principles are noted in parenthesis (). If the contractor is CAS covered, the responses to these risk assessment questions should consider the results of your CAS compliance testing.

Ask the contractor to explain their policies and procedures for identifying and segregating unallowable costs and directly associated costs (31.201-6 Accounting for Unallowable Costs). Document this discussion.

Working Paper Reference	
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FAR Cost Principle	Response			Follow-Up W/P Reference
	Yes	No	Not- known	
<u>31.201-5 CREDITS</u>				
Does the company show miscellaneous income other than as a reduction to expenses, (e.g., rental income, xerox income, and vending machine income)?				
<u>31.203 INDIRECT COSTS</u>				
Did the company exclude unallowable costs from the allocation bases?				
<u>31.205-1 PUBLIC RELATIONS AND ADVERTISING COSTS</u>				
Did the company advertise in newspapers, magazines, on radio, etc. for other than help wanted?				
Is the company involved in trade shows, exhibit booths, etc. relative to the products and/or services the company offers?				

FAR Cost Principle	Response			Follow-Up W/P Reference
	Yes	No	Not- known	
<u>31.205-6 COMPENSATION FOR PERSONAL SERVICES</u>				
Were any new DoD contracts awarded after 4/15/95 with 1995 or later funding? If so, were there any employees that had total compensation greater than the amount prescribed in DFARS 231.205-6(a)(2) or FAR 31.205-6(p) [see CAM 6-414.8]?				
<u>31.205-8 CONTRIBUTIONS OR DONATIONS</u>				
Has the company claimed contributions or donations?				
<u>31.205-10 COST OF MONEY</u> (CAS 414/417) (also see 31.205-52)				
Does the company propose and/or claim Facilities Capital Cost of Money?				
<u>31.205-11 DEPRECIATION</u> (404/409) (also see 31.205-16 and 31.205-52)				
Does the company use different depreciation methods for income tax and financial accounting purposes?				
Does the company use different depreciation methods for government and non-government work?				
Does the company allow personal use of company vehicles (31.205-6(m)(2)) or other company assets? (31.201-4 ALLOCABILITY)				
<u>31.205-13 EMPLOYEE MORALE, HEALTH, WELFARE, FOOD SERVICE, AND DORMITORY COSTS AND CREDITS</u>				
Do the company's policies and procedures fail to clearly distinguish employee morale and welfare costs from gifts, recreation and entertainment costs?				
Does the company give awards and gifts for other than compensation or recognition of employee achievements pursuant to an established plan or policy?				
Did the company claim any recreation costs?				
Is a cafeteria maintained for employees? If yes, does it operate at a loss?				
<u>31.205-14 ENTERTAINMENT COSTS</u>				
Do vouchers for luncheons and trips fail to list the purpose for which the expense was incurred?				

FAR Cost Principle	Response			Follow-Up W/P Reference
	Yes	No	Not- known	
Does the company provide memberships in social, dining, or country clubs to its employees for personal or business-related purposes?				
Does the company have parties, recreational trips, shows, picnics, or other such recreational or entertainment events?				
<u>31.205-15 FINES, PENALTIES, AND MISCHARGING COSTS</u>				
Has the company been fined or penalized (e.g., were any tax returns filed late)?				
<u>31.205-16 GAINS AND LOSSES ON DISPOSITION OR IMPAIRMENT OF DEPRECIABLE PROPERTY OR OTHER CAPITAL ASSETS</u> (also see 31.205-11)				
Were any assets written down as a result of impairments caused by events or changes in circumstances (e.g., environmental damage, idle facilities due to a declining business, etc.)?				
<u>31.205-20 INTEREST AND OTHER FINANCIAL COSTS</u>				
Has the company claimed interest expense or other financial costs?				
<u>31.205-21 LABOR RELATIONS COSTS</u>				
Has the company been involved in any activities to assist, promote, or deter unionization?				
<u>31.205-23 LOSSES ON OTHER CONTRACTS</u>				
Has the company incurred any significant losses on recent contracts regardless of the customer?				
<u>31.205-24 MAINTENANCE AND REPAIR COSTS</u>				
Has the company incurred any significant maintenance and repair costs? If, so are any of the costs extraordinary and possibly subject to capitalization requirements of CAS 404 or GAAP?				
<u>31.205-25 MANUFACTURING AND PRODUCTION ENGINEERING COSTS</u>				
Has the company incurred any significant manufacturing and production engineering costs? If, so are any of the costs covered by 31.205-18 IR&D or contractually required?				
<u>31.205-27 ORGANIZATION COSTS</u>				
Has the company reorganized, established a new division, or merged with another company?				

FAR Cost Principle	Response			Follow-Up W/P Reference
	Yes	No	Not- known	
Does the company have plans for such activities in the future?				
<u>31.205-33 PROFESSIONAL CONSULTING SERVICE COSTS</u>				
Does the company fail to maintain supporting evidence of the nature and scope for professional and consulting services rendered?				
Did the company incur retainer fees?				
<u>31.205-35 RELOCATION COSTS</u>				
Does the company reimburse employees' closing costs or continuing costs of ownership over 14% of the sale price of the old house?				
Does the company reimburse employees' costs incidental to acquiring a home in a new location over 5% of the purchased price of the new house?				
Does the relocation policy allow for payment of income taxes?				
Does the company allow more than 30 days of TDY for relocation?				
Does the company's travel and relocation policy allow newly transferred employees to leave the company before 12 months and not have to reimburse the company for the relocation expenses?				
<u>31.205-36 RENTAL COSTS</u>				
Has the company entered into any new leases or renegotiate any existing leases?				
Did the company fail to use FASB No. 13 to determine if the lease was a capital lease?				
Are there any rental payments for property leased from an owner, stockholder, or an affiliate of the contractor?				
<u>31.205-40 SPECIAL TOOLING AND SPECIAL TEST EQUIPMENT</u>				
Does the company lack policies and procedures to differentiate between the costs of general-purpose test equipment and special tooling and special test equipment?				
<u>31.205-41 TAXES</u>				
Have more taxes (state income taxes mainly) been accrued than paid?				
<u>31.205-46 TRAVEL COSTS</u>				

FAR Cost Principle	Response			Follow-Up W/P Reference
	Yes	No	Not- known	
Do total per diem rates paid exceed JTR/FAR limitations?				
Were any rebates, credits, discounts given to the company by airlines, car rental firms, motels, etc. based on such things as volume?				
<u>31.205-47 COST OF LEGAL AND OTHER PROCEEDINGS</u>				
Has the company incurred costs in connection with any litigation brought by the government?				
Has the company incurred costs in connection with any proceeding brought by a third party on behalf of the government, i.e., qui tam suits?				
Has the company incurred costs to defend against stockholder lawsuits?				
Did the company require legal services for organizing, reorganizing, antitrust suits, claims against the Government or bad debts?				
Did the company incur bid protest costs or costs of defending against protests?				
<u>31.205-49 GOODWILL</u>				
Does the company have any costs for amortization, expensing, write-off, or write-down of goodwill?				
Has the company included the cost of money resulting from including goodwill in the facilities capital employed base?				
<u>31.205-51 COSTS OF ALCOHOLIC BEVERAGES</u>				
Does the company fail to identify and exclude the costs of alcoholic beverages from its claimed costs?				
<u>31.205-52, ASSET VALUATIONS RESULTING FROM BUSINESS COMBINATIONS</u>				
Did the company have asset write-ups or write-downs following a business combination?				