



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAS 730.3.B.2.4

September 9, 2010
10-PAS-024(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Guidance on Auditor Communications (“The Rules of Engagement”)

The slides in Enclosure 2 should be presented at a staff conference by December 31, 2010.

SUMMARY

This MRD reiterates and clarifies existing guidance on coordinating and communicating with the contracting officer and contractor during each phase of the audit. Effective communication with the contracting officer and contractor throughout the audit process is an essential part of performing a Generally Accepted Government Auditing Standards (GAGAS) compliant audit while meeting the requestor’s needs. For example, auditors must communicate with the contractor to gain a full understanding of the contractor’s submission or other areas subject to audit. Auditors also need to communicate with the contractor through-out the audit to ensure that audit conclusions are based on a complete understanding of all pertinent facts and should obtain the contractor’s views of the audit conclusions and recommendations for inclusion in the audit report. Auditors must communicate with the contracting officer/requestor to gain a clear understanding of the requestor’s needs and specific concerns that he/she may have relative to the audit. Auditors should keep the requestor/contracting officer informed of the status of the audit as well as issues and problems arising during the course of the audit and should also provide assistance to ensure a proper understanding of the audit conclusions and rationale after report issuance. Auditor communications with the contracting officer and contractor should be appropriately documented in the working papers.

BACKGROUND

As reflected in our Mission Statement, DCAA serves the public interest by performing contract audits and providing accounting and financial advisory services in connection with negotiation, administration, and settlement of contracts/subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. As we accomplish our mission we must perform audits that are compliant with GAGAS, as well as being timely and responsive to the requestor’s needs. Establishing open and effective communications with all stakeholders is essential in achieving these dual goals.

GUIDANCE

GAGAS 6.07 requires that when planning the engagement, auditors should communicate in writing certain information to the contractor and the individuals requesting the audit services regarding the services to be performed. GAGAS 6.44 through 6.50 address obtaining and reporting the views of contractor officials concerning findings, conclusions and recommendations. While GAGAS specifically addresses communication at the planning and reporting stages, communicating with the contractor and requestor throughout all phases of an audit is necessary to comply with other GAGAS requirements. For example, GAGAS 6.04b requires the auditor to obtain sufficient evidence to provide a reasonable basis for the conclusion expressed in the report. To obtain sufficient evidence, it is essential for auditors to communicate with the contractor to ensure that conclusions are based on a full understanding of all relevant facts. In addition, discussions with the requestor may disclose information relevant to the audit. Such discussions are a normal part of an audit and can be conducted without impairing an auditor’s independence. We have identified the following activities and/or processes that auditors commonly encounter during the course of their work for which we are providing the “rules of engagement” related to auditor communication and interaction with the contractor and requestor.

Attending Procurement Meetings Prior to Receipt of an Audit Request

Prior to receiving an audit request, auditors may be invited by procurement representatives responsible for major procurements to attend meetings between the various stakeholders, e.g., the buying command, DCMA and the contractor. These meetings may occur early in the process, such as after the contracting officer initiates a request for proposal (RFP). Auditors may participate in such meetings for the purpose of discussing general issues related to the procurement such as procurement schedule requirements, expectations on timely contractor support, and the identification of expected major subcontracts. In addition, auditors may provide general advice on what constitutes an adequate proposal and explain the FAR 15.408 (Table 15-2) requirements for adequate cost or pricing data. Auditor participation in meetings held for these purposes does not impair auditor independence. However, auditors are reminded that DCAA does not participate in meetings established to discuss proposal development, or review or provide input on draft proposals, which is a common practice for members of integrated product teams (IPTs), a role that DCAA does not perform. Regardless of the circumstances, auditors should always refrain from comments that could be construed as advising the contractor on how to develop its proposal. For example, auditors should not advise the contractor on specific methodologies for developing a cost element included in its proposal. However, auditors may advise the contractor that to be adequate, the proposal must include an explanation of the estimating process, including judgmental factors and the methods used in the estimate of that cost element.

Prior to accepting an invitation to such meetings, the FAO should discuss these ground rules for DCAA participation with the procurement representative. In addition, the auditor should discuss the ground rules at the start of the meeting so that other attendees are aware of the limitations for DCAA participation.

Attendance at these meetings should be documented in a Memorandum for Record.

Establishing the Engagement/Acknowledgement of the Audit Request

Upon receipt of the audit request, the auditor should hold discussions with the requestor before beginning the audit to gain a clear understanding of the requestor’s needs, to identify specific areas of concerns, and to discuss how DCAA can best meet those needs and address the requestor’s concerns while complying with GAGAS. In some cases DCAA may be asked to perform an audit of only part(s) of a proposal rather than the entire proposal. As clarified in MRD 09-PSP-005(R), dated April 9, 2009, auditors can still perform audits of part(s) of a proposal. However, if the auditor is aware of risk factors that indicate additional part(s) or the entire proposal should be audited, the auditor should discuss those risks with the contracting officer and follow the procedures in the MRD 09-PSP-005(R).

The auditor should acknowledge the request in writing within five days of receipt. However, if the risk assessment has not been completed by that time, the FAO should issue an abbreviated acknowledgement letter indicating that the FAO will coordinate an expected report date after the risk assessment is completed within approximately XX number of days. Once the risk assessment is completed, the FAO should follow up with an expanded acknowledgement letter which includes a realistic expected report date and details regarding the scope of the services based on risk factors for the particular contractor and proposal. Buying Commands have stressed that they want a realistic date upfront so they can plan the procurement and schedule the additional actions required before contract award.

For audits that are not requested (e.g., incurred cost audits, postaward audits, and audits of contractor business systems), the auditor should contact the contracting officer to notify him/her of the audit commencement and discuss any concerns or other information that the contracting officer might have relevant to the audit. In addition, after the risk assessment is completed, a notification letter should be sent to the planned recipient(s) of the audit report.

At the commencement of the audit, the contractor should provide Government representatives (e.g., DCAA, ACO, and PCO) with a “walk-through” of its assertion (e.g., forward pricing proposal, incurred cost submission). The walk-through should generally take place after the auditor performs an initial adequacy review of the contractor’s assertion and may occur either before or during the entrance conference. At these meetings, the contractor should fully explain its assertion and allow the audit team to ask questions to fully understand the contractor’s assertion. This process will facilitate the early identification of any inadequacies with the contractor’s assertion that need to be addressed. For example, where the request relates to a forward pricing proposal, the contractor should perform a walk-through of the proposal for the Government after proposal submittal and preliminary review by the Government. This provides an opportunity for all stakeholders to understand the composition of the proposal, identify any obvious data omissions, and may indicate whether the proposal contains inadequacies or if there are other issues that must be addressed before audit and/or negotiations (e.g., the contractor has not finished its price/cost analysis of subcontracts). Having the requestor participate in the walk-through will help to expedite the appropriate action if the proposal is not adequate or there are other issues that require the requestor’s assistance.

For requested audits, the risk assessment should be completed as promptly as possible after receipt of the request and the walk-through of the proposal/submission by the contractor. As

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discussed above, a realistic expected report date should be provided in writing to the requestor based on the risk assessment. If the proposal is inadequate but the requestor still wants an audit of that proposal, auditors should elevate the issue and follow the guidance in CAM 9-205d.

Relevant discussions and meetings held during this phase of the audit should be documented in the working papers (e.g., discussions with the requestor/contracting officer regarding the clarification of the request and specific concerns, and the walk-through meeting).

Entrance Conference

The auditor should explain the purpose and overall plan for performance of the audit at the entrance conference while also discussing the types of books, records, and other data the auditor will need. The auditor should also ascertain the nature and location of supporting data. It is also appropriate to discuss other matters during the entrance conference. For example, the auditor may need to follow-up on items discussed at a separate walk-through meeting or arrange for temporary space at the contractor’s facility in close proximity to the contractor’s representatives with whom he/she will be working so that those representatives are readily available. The entrance conference should be documented in accordance with CAM 4-302.1.

Communication with the Contractor During the Audit

Through-out the audit, the auditor should discuss matters with the contractor as needed to obtain a full understanding of the contractor’s basis for each item in the submission, or each aspect of the area subject to audit. The auditor should discuss preliminary audit findings (e.g., potential system deficiencies, potential FAR/CAS noncompliances, etc.) with the contractor to ensure conclusions are based on a complete understanding of all pertinent facts. These types of discussions do not impair auditor independence and are generally necessary to obtain sufficient evidence to support audit conclusions. Discussions of the preliminary audit issues should be limited to factual matters when the audit is of forecasted costs that will be subject to negotiations. (See the “Exit Conference” section below for a discussion of what constitutes factual matters.) In some circumstances, depending on the complexity of the issues and the auditor’s experience level, it may be appropriate for the auditor to discuss the preliminary audit issues with the supervisor prior to the discussion with the contractor.

On occasion, the contractor may revise its submission during the course of the audit. Auditors must never request or suggest that the contractor revise its submission/proposal to correct or adjust for issues identified during an audit. However, in some cases the contractor may, of its own accord, make such revisions after the auditor has discussed preliminary issues with the contractor. In those cases, the audit report should reflect the results of the audit of the original submission and include all questioned cost and/or deficiencies identified during the audit. The requestor/contracting officer should be notified that the audit report will reflect the FAO’s audit of the original submission, and the auditor will consider the contractor’s management approved revised submission the contractor’s concurrence with DCAA’s audit position.

If major audit problems (e.g., denial/delay of access to records) are encountered during the audit, they should be orally communicated immediately to the appropriate contractor officials and

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confirmed in writing. When denied access to contractor records, auditors should follow the detailed procedures and other guidance in MRD 08-PAS-042, Subject: Audit Guidance on Denial of Access to Contractor Records Due to Contractor Delays, dated December 19, 2008.

Interim discussions with the contractor should be documented in the working papers in accordance with CAM 4-303.1.

Communication with the Requestor During the Audit

The auditor should keep the requestor/contracting officer informed through-out the audit of major preliminary audit issues and problems. Prior to such discussions, the auditor should coordinate with the supervisor to ensure there is agreement on the audit position. Since the audit is not completed, the auditor should not provide an audit opinion during these interim discussions but should clearly communicate the status of the audit to the requestor.

The supervisor or auditor (after coordinating with the supervisor) should provide timely notification to the requestor if an extension is required. The auditor or supervisor should call the requestor as soon as he/she knows that the due date cannot be met. The oral notification of the extension should be confirmed in writing under the FAO Manager’s or Supervisor’s signature.

Occasionally, before an audit is completed, the requestor may ask the FAO to cancel the audit or change the scope of the audit or type of engagement (e.g., to an agreed-upon-procedures engagement, examining parts of a proposal or providing specific cost information). In certain limited cases, this may be appropriate, for example, if there is a change in circumstances that affects the requestor’s requirements or there was a misunderstanding about the nature of the original services or alternative services originally available. However, before an auditor agrees to a contracting officer’s request to convert or cancel an engagement (e.g., agreed-upon procedures, examination, or providing rate information or other nonaudit service); the FAO should consider the reason given for the request, especially if the audit procedures are substantially complete. Under no circumstances should DCAA agree to a contracting officer’s request to cancel or convert an engagement to avoid a scope limitation, the reporting of an adverse or qualified audit opinion, or any other result that may be considered unfavorable. Generally, any changes that the requestor wants to make to their original request should be provided to the FAO in writing. The FAO should discuss the matter with the requestor to obtain a clear understanding of the reason for the request and explain any concerns regarding risk to the Government. The verbal discussion should generally be followed by written confirmation, either concerning the changes to the engagement that the FAO believes are appropriate or the reason why the change cannot be made. In addition, the matter should be elevated if necessary to resolve any differences.

Interim discussions with the contracting officer should be documented in the working papers in accordance with CAM 4-303.1.

Exit Conference

Upon completion of the field work, the auditor should hold the exit conference to discuss the audit results and obtain the contractor’s views concerning the findings, conclusions, and

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recommendations for inclusion in the audit report as required by GAGAS. Except for audits requiring RAM/DAM review, the exit conference may be held after the supervisor completes his/her review of the working papers and draft report but before the FAO manager completes the final review if the FAO manager believes it is appropriate based on his/her involvement with the audit, and/or the complexity of the audit and the experience of the audit team. In such cases, the auditor should inform the contractor that the results are subject to management review. For audits requiring RAM/DAM review, all applicable management reviews must be completed prior to holding the exit conference. The auditor should invite the requestor/contracting officer to the exit conference, especially if there are major or complex audit issues.

For other than audits involving forecasted costs subject to negotiations, the auditor should provide the contractor a copy of the draft report, or at a minimum, the results of audit section of the draft report (including the opinion and any exhibits and notes, or statement of conditions and recommendations). To facilitate the discussion of the audit results and obtaining the contractor’s views of the results, this information may be provided prior to the exit conference as long as the parameters regarding management reviews discussed in the previous paragraph have been met. If the report includes forecasted costs that are subject to negotiations, such as forward pricing audits (see CAM 10-212.2c), the auditor should not provide the contractor a copy of the draft report or results and should limit the discussion to factual matters/differences. Auditors should not disclose conclusions or recommendations on projected costs or rates. For example, the auditor would discuss with the contractor why a proposed raw material factor was based on history from the development phase of a particular contract when the contractor has more current and relevant history from follow-on production contracts. In this case, the auditor would not disclose the audit conclusion (e.g., that DCAA’s results were based on the history for the follow-on productions contracts) or the overall questioned cost, the questioned cost by cost element, or how much of a specific rate/factor was questioned unless specifically directed to do so by the requestor.

The information provided to the contractor at or in anticipation of the exit conference (i.e., draft report/results or, in the case of forecasted costs subject to negotiations, factual information) should be provided concurrently to the requestor/contracting officer. The draft audit report and other electronic files provided should be given the same protection as the final audit report (i.e., password protected to prevent modifications and clearly marked “For Official Use Only”) and using the guidance contained in MRD 09-OTS-026, dated May 29, 2009; and MRD 09-OTS-028 dated June 11, 2009.

The FAO manager may approve the release of the draft audit report on a proposal to the contracting officer after the exit conference when it is anticipated that the final report will be issued shortly (generally within 5 days). Such release may be made before the FAO manager completes the final review; if the FAO manager believes it is appropriate based on his/her involvement with the audit, and/or the complexity of the audit and the experience of the audit team. This allows the contracting officer to start developing the negotiation position, pending the issuance of the final report. The draft report should be clearly marked draft and also include the following or a similar statement “Subject to change based on final management review until final report is issued.”

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Document the results of the exit conference in accordance with CAM 4-304 and include copies of the draft reports or other information provided. The FAO manager’s approval to proceed with the exit conference should also be documented in the working papers.

Post Issuance

After the audit report is issued, auditors should provide the contracting officer assistance as needed to understand the audit conclusions and rationale. Providing such assistance is a normal part of any audit and does not impair an auditor’s independence. Such assistance may involve answering questions informally, attending or otherwise supporting negotiations or attending DCMA Boards of Review. Documentation of support of negotiations or Boards of Review should be prepared in accordance with CAM 15-404 and CAM 1-403.4, respectively, and filed in Livelink in the same folder with the official audit working paper files (see CAM 4-407e(9)).

It is DCAA’s policy to support contracting officers at negotiations. Specific guidance on attending negotiation was issued in MRD 10-PAS-023(R), Audit Alert on Auditor Attendance at Negotiations, dated September 9, 2010.

CONCLUDING REMARKS

In order to facilitate an understanding of this guidance, frequently asked questions are provided as Enclosure 1. Also provided as Enclosure 2, are slides covering this MRD as well as the Audit Alert on Auditor Attendance at Negotiations (10-PAS-023(R), dated September 9, 2010). We recommend these slides be presented at the next scheduled FAO staff conference.

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Auditing Standards Division, at (703)-767-3274 or email: DCAA-PAS@dcaa.mil.

/s/

Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosures: 2

1. Frequently Asked Questions – Auditor Communications
2. Slides on “Clarifying the Rules of Engagement”

DISTRIBUTION: C

FREQUENTLY ASKED QUESTIONS AUDITOR COMMUNICATIONS

Attending Procurement Meetings Prior to Receipt of an Audit Request

Question 1: The procurement contracting officer has asked us to attend a “pre-proposal RFP kickoff meeting” for a follow-on contract for a major procurement. The meeting will include the contractor.

We are concerned that attending this meeting would impair, or appear to impair our independence because it may be considered an IPT. What should we do?

Answer: Auditors may attend pre-proposal meetings to discuss general procurement issues, such as procurement schedule requirements, expectations for timely support, and the identification of expected major subcontracts. In addition, auditors may provide general advice on what constitutes an adequate proposal and answer general questions on FAR 15.408 (Table 15-2) requirements for adequate cost or pricing data. Auditors may not participate in meetings related to the development of the contractor’s proposal or provide input on draft proposals. To avoid any appearance of impairment to independence, auditors should always refrain from comments that could be construed as advising the contractor on how to develop its proposal. For example, auditors should not advise the contractor on specific methodologies for developing a cost element included in the proposal such as the actual hours from Lots 4 and 5 should be used to project the hours proposed for Lot 6. However, auditors may advise the contractor that to be adequate, the proposal must include an explanation of the estimating process, including judgmental factors and the methods used in the estimate of that cost element. For example, the auditor can explain that when actual hours (i.e., history) are used, the basis of estimate must include the specific historical data used and explain the use of any judgmental factors (e.g., 90% learning curve) applied.

Prior to accepting the invitation to the pre-proposal RFP kickoff meeting you should discuss these ground rules with the PCO and inform him/her that you cannot attend any portions of the meeting where the development of the contractor’s proposal is discussed. In addition, you should discuss those ground rules at the start of the meeting so all participants understand the limitations regarding your participation.

Establishing the Engagement/Acknowledgement Letter

Question 2: When I discuss the requestor’s specific concerns and describe the audit procedures I may use to address those concerns, am I impairing my independence under GAGAS because it could give the appearance that I am coordinating the scope of audit with the requestor or allowing the requestor to inappropriately influence the scope of my audit?

Answer: No. You are obtaining an understanding of the requestor’s specific concerns and discussing the audit procedures that may address those concerns. You are not asking for the requestor’s approval to perform these procedures. You determine (in consultation with your

supervisor) based on the risk assessment what procedures are necessary to address the risk and perform a GAGAS compliant audit. Auditors must not restrict the audit procedures that the audit team believes are necessary to accomplish the audit objective, based on a contracting officer's request. In addition, adequately documenting in the working papers the concerns raised and other information provided by the requestor, your independent assessment of those factors in conjunction with other risk assessment factors, and the basis for your judgments and conclusions should eliminate any potential appearance of a lack of independence.

Entrance Conference

Question 3: I am planning the entrance conference for my proposal audit. I have had problems in the past getting timely support from the contractor and I could use the contracting officer's support when I address this matter with the contractor. I know DCAA does not participate in IPTs or similar arrangements because it could impair, or appear to impair our independence. If I invite the contracting officer to attend the entrance conference, would that be considered an IPT-like activity?

Answer: No. Inviting the contracting officer to an entrance conference would not make it an IPT. IPTs and similar arrangements typically involve teaming with the contractor to develop a proposal and/or to provide input to the contractor on draft proposals or other areas that the auditor subsequently audits. That type of activity can result in a violation of the GAGAS independence standard that precludes auditors from auditing their own work. In contrast, the entrance conference is a normal part of your audit of the contractor's management approved submission. Inviting the contracting officer to attend the entrance conference does not impair your independence and is prudent given the problems you have encountered in the past obtaining timely support from the contractor.

It should be noted that inviting the contracting officer to the exit conference also would not impair independence. The requestor/contracting officer should be invited to the exit conference, especially if there are significant or complex audit issues.

Discussions with the Contractor During the Audit

Question 4: During my audit of the contractor's incurred cost submission, I discussed some preliminary findings with the contractor involving costs that appear to be unallowable to ensure that I am considering all the pertinent facts. The contractor subsequently submitted a revised submission removing these costs prior to my completion of the audit fieldwork. I did not request or even suggest that the contractor revise its submission. Did I impair my independence by discussing these preliminary findings with the contractor? Will I have to qualify my report because the contractor submitted a revised submission based on my feedback?

Answer: Auditors should never provide preliminary results to the contractor for the purpose of allowing the contractor to revise its submission to adjust for unallowable cost or other problems found during the audit. However, in this case, the purpose of your discussion with the contractor was to ensure that you were considering all the pertinent facts that are necessary to obtain sufficient evidence. In addition, you did not solicit the revised submission from the contractor; therefore, independence is not impaired and no qualification is needed. However, the audit report should reflect the results of the audit of the original submission and include all questioned costs identified during the audit. The contracting officer should be notified that the

audit report will reflect the FAO's audit of the original submission, and the audit will consider the contractor's management approved revised submission. The contractor's revised submission should be considered the contractor's concurrence to the questioned cost.

It should be noted that MRD 08-PAS-028, Subject: Audit Guidance on In-Process Integrated Product Teams (IPTs) Assignments and Other Teaming Arrangements Involving the Contractor, dated September 12, 2008, required audit reports related to IPTs and similar teaming arrangements to be qualified for the impact on auditor independence as a result of DCAA's participation. The referenced guidance was generally only applicable to IPT and other teaming arrangement assignments that were in process at the time the guidance was issued. Since DCAA no longer participates in such activities, there should be no need for the type of qualification discussed in that guidance. If you believe you have a situation that warrants such a qualification, you should contact your regional office for further guidance.

Question 5: I attended a meeting that was held prior to the contractor submitting the proposal for Lot 6. At the meeting I discussed the Table 15-2 requirements for an adequate proposal and explained that a labor hour estimate that is based on history must spell out the specific historical data that was used. However, because I did not want to impair my independence by providing advice to the contractor on how to develop the proposal, I did not address what specific lot data should be used. I am now auditing the contractor's proposed Lot 6 labor hours and I want to ask why the contractor used Lot 3 and Lot 4 labor history, but excluded Lot 5 labor history since I believe it should have been included. Will I impair my independence by discussing this?

Answer: No. You will not impair your independence by asking the contractor to explain why Lot 5 history was not used. Since you are auditing the contractor's management approved proposal, you can ask questions about the specific methodology used. Discussing matters with the contractor to gain a full understanding of the contractor's basis for each item in its submission is a normal part of any audit and is not advising the contractor on how to develop its proposal.

Discussions with the Requestor During the Audit

Question 6: During the audit of a proposal, I found some significant issues with the contractor's proposed material costs. After discussing it with my supervisor, I called the requestor to keep her informed and told her that we may be questioning a significant portion of the proposed material costs. I was careful to explain that this was preliminary and still subject to management review. A few days later, she called back and said that she has decided she only needs us to verify the indirect and labor rates and asked that we convert the audit to a rate check (i.e., providing specific cost information). What should we do?

Answer: You should ask the requestor why she has decided to change the request and explain your concerns regarding the risk to the Government if the audit is not completed. If the requestor still wants to convert the audit to a rate check, you should discuss the matter with your supervisor. Your supervisor should elevate the issue to the appropriate level within the command. DCAA should never agree to a contracting officer's request to cancel or convert an examination to avoid a scope limitation, the reporting of an adverse or qualified audit opinion, or any other audit result that may be considered unfavorable. In this case, since you have already identified significant risk related to the material costs, not completing the audit and reporting the questioned cost for the contracting officer to consider in her negotiations would put the Government at risk. Therefore, you should discuss your concerns with the requestor and elevate

the issue if necessary to resolve any differences. In addition, the requestor should be asked to provide the request to convert the audit to a rate check in writing and the FAO's verbal discussion with the requestor regarding the risk to the Government and why the change cannot be made should be followed by written confirmation,

Exit Conference

Questions 7: I've completed the field work for my audit and drafted the audit report. Can I hold the exit conference now?

Answer: Unless your audit requires RAM/DAM review, the exit conference may be held after your supervisor and the FAO manager have completed their reviews of the audit. However, the FAO manager may give approval to hold the exit conference before he/she completes the final review (but after your supervisor has completed his/her review of the working papers and draft audit report); if the FAO manager believes it is appropriate based on his/her involvement with the audit, and/or the complexity of the audit and the experience of the audit team. In such cases, you should inform the contractor that the results are subject to management review. If your audit requires RAM/DAM review, you should hold the exit conference after all applicable management reviews have been completed.

Question 8: At the exit conference for an accounting system audit, do I give the contractor a copy of the draft audit report or just the statement of conditions and recommendations?

Answer: You should provide the contractor with a copy of the draft audit report or, at a minimum, the results of audit section of the draft report including the audit opinion and the statement of conditions and recommendations. The contracting officer should be provided a copy of whatever is provided to the contractor.

Post Issuance

Question 9: I was invited to attend a DCMA Board of Review for a CAS noncompliance issue reported in an audit I completed recently. Will my participation create an appearance of impairment to my independence?

Answer: No. Attending a Board of Review to explain the audit conclusions and rationale does not impair auditor independence. Providing such explanations is a normal part of any audit. You should document attendance at the Board of Review in accordance with CAM 1-403.4 and file the documentation in Livelink in the same folder with the official audit working paper files (see CAM 4-407e(9)).



Defense Contract Audit Agency

**Clarifying the “Rules of Engagement”
for Auditor Communications**



Auditor Communications

This presentation covers guidance in two MRDs

- MRD on Auditor Communications (Rules of Engagement)
- MRD on Auditor Attendance at Negotiations



Auditor Communications

- As reflected in our mission statement we serve the public interest by helping the Department ensure that taxpayer dollars are spent on fair and reasonable contract prices.
- As we accomplish our mission, we must perform audits that are in compliance with GAGAS, as well as being timely and responsive to the requestor's needs.
- Establishing open and effective communications with all stakeholders is essential to achieving these dual goals.



Auditor Communications

- MRDs reiterate and clarify existing guidance on expected and acceptable communications during each phase of the audit:
 - Attending procurement meetings prior to receipt of audit request
 - Establishing the engagement/Acknowledging the audit request
 - Entrance conference
 - During the audit
 - Exit conference
 - Post report issuance
 - Supporting negotiations



Auditor Communications

Attending Procurement Meetings

- If requested auditors should attend meetings on general procurement issues, such as:
 - ➔ Procurement schedule requirements
 - ➔ Expectations for timely contractor support
 - ➔ Identification of major subcontracts
- May also provide general advice on what constitutes an adequate proposal and explain FAR 15.408 requirements.
- Auditor attendance for such purposes does not impair independence.
- These meetings generally include stakeholders for major procurements and may occur early in the process, e.g., after RFP is issued.



Auditor Communications

Attending Procurement Meetings

- Auditors are reminded that:
 - ➔ DCAA does not attend meetings related to proposal development.
 - ➔ Auditors should not review or provide input on draft proposals.
 - ➔ Regardless of the circumstances, auditors should refrain from comments that could be construed as advice to the contractor on how to develop its proposal.
 - ➔ Ground rules for DCAA participation should be established prior to attendance.



Auditor Communications

Establishing the engagement

- Upon receipt of request, hold discussions with requestor before beginning the audit to:
 - ➔ gain clear understanding of the requestor's needs
 - ➔ identify specific areas of concern
 - ➔ discuss how DCAA can best meet those needs and address concerns while complying with GAGAS
- DCAA may be asked to audit only parts of a proposal.
- As clarified in MRD 09-PSP-005(R), dated April 9, 2009, auditors can still perform audits of part(s) of a proposal.
- If risk factors indicate that additional parts or entire proposal should be audited, discuss with the requestor and follow the procedures in the MRD 09-PSP-005(R).



Auditor Communications

Establishing the engagement

- Acknowledge the request in writing within 5 days of receipt.
- If the risk assessment has not been completed, issue an abbreviated acknowledgement letter indicating that the FAO will coordinate an expected report date after the risk assessment is completed within approximately XX number of days.
- Once risk assessment is completed issue a 2nd “expanded” acknowledgement with a realistic expected report date based on risk factors for the particular contractor and proposal.



Auditor Communications

Establishing the engagement

- For audits that are not requested (e.g., incurred cost audits, postaward audits, and audits of contractor business systems):
 - ➔ The auditor should contact the contracting officer to notify him/her of audit commencement and discuss any concerns or other information that he/she might have relevant to the audit.
 - ➔ Notification letter should be sent to the planned recipient(s) of the audit report after the risk assessment is completed.



Auditor Communications

Proposal Walk-Through

- Held at commencement of audit, generally:
 - ➔ After initial adequacy review
 - ➔ Before or during entrance conference
- Include Gov't representatives (DCAA, ACO, PCO)
- Purpose:
 - ➔ Gain full understanding of contractor's assertion
 - ➔ Identify obvious data omissions
 - ➔ Facilitate early identification of assertion/ proposal inadequacies
- Including requestor will expedite appropriate action if proposal is inadequate or other problems require requestor's assistance.



Auditor Communications

Establishing the engagement

- For requested audits, the risk assessment should be completed as promptly as possible after receipt of the request and walk-through of the proposal/submission by the contractor.
- A realistic expected report date should be provided in writing to the requestor based on the risk assessment.
- If the proposal is inadequate, and the requestor still wants an audit, elevate the issue and follow the guidance in CAM 9-205d.
- Relevant discussions/meetings during this phase of the audit should be documented in the working papers.



Auditor Communications

Entrance conference

- Explain to contractor the purpose and overall plan of performance for the audit, and generally the types of books, records, and other data the auditor will need.
- Determine the nature and location of supporting data.
- Discuss other matters as appropriate in the specific circumstances; e.g.,
 - ➔ Follow up on items identified during separate walk-through meeting.
 - ➔ Arrange for space close to contractor representatives for the audit.
- Document the entrance conference in accordance with CAM 4-302.1



Auditor Communications

Communicating with contractor during audit

- Discuss matters as needed for a full understanding of contractor's basis for each item in submission or aspect of area being audited.
- Discuss preliminary audit findings (potential system deficiencies, FAR/CAS noncompliances, etc.) so that conclusions are based on a complete understanding of all pertinent facts.
 - ➔ Limit to factual differences for audits of forecasted costs subject to negotiations.
 - ➔ Depending on the complexity of the issues and the auditor's experience level, it may be appropriate to discuss preliminary audit issues with supervisor first.



Auditor Communications

Communicating with contractor during the audit

- Immediately orally communicate major audit problems to contractor officials authorized to make decisions.
 - ➔ For example, denial of access to records
 - ➔ Confirm in writing
- When denied access to contractor records, follow the detailed procedures and other guidance in MRD 08-PAS-042, dated December 19, 2008.



Auditor Communications

Communicating with contractor during audit

- On occasion, contractor may submit a revised submission during the audit.
- Auditors should never solicit a revised submission.
- Audit report should reflect results of audit of original submission and all questioned costs or deficiencies identified during the audit.
 - ➔ Revised submission should be considered concurrence with the FAO's position.
 - ➔ Notify requestor that audit report will reflect the audit of the original submission and will consider the contractor's management approved revised submission.
- Interim discussion with contractor should be documented in accordance with CAM 4-303.1.



Auditor Communications

Communicating with requestor during the audit

- Keep requestor/contracting officer informed of major preliminary audit issues and problems throughout the audit.
 - ➔ Discuss with supervisor first.
 - ➔ Should not provide an audit opinion
 - ➔ Clearly communicate status of audit
- Provide timely notification of required extensions.
 - ➔ The auditor or supervisor should call to discuss as soon as he/she knows expected report date cannot be met.
 - ➔ Oral notification of the extension should be confirmed in writing under the FAO Manager's or Supervisor's signature.



Auditor Communications

Communicating with requestor during the audit

- During the course of the audit, the requestor may ask the FAO to either change the type of engagement, change the audit scope or cancel the audit.
 - ➔ Before agreeing to convert or cancel an engagement consider the reasons for the request especially if the audit is substantially complete.
 - ➔ Do not agree to a contracting officer's request to cancel or convert an engagement to avoid a scope limitation, an adverse or qualified opinion, or any other unfavorable result.



Auditor Communications

Communicating with requestor during the audit

- Changes to original request should be provided to the FAO in writing.
- FAO should discuss the matter with the requestor to:
 - ➔ obtain a clear understanding of the reason for the request.
 - ➔ explain any concerns regarding risk to the Government.
- Verbal discussion should be confirmed in writing concerning:
 - ➔ appropriate changes to the engagement or
 - ➔ the reason why the changes cannot be made.
- The matter should be elevated if necessary to resolve any differences.



Auditor Communications

Communicating with requestor during the audit

- Interim discussions with the requestor/contracting officer should be documented in the working papers in accordance with CAM 4-303.1.
- Documentation should include date, participant's names and titles, and primary discussion points.



Auditor Communications

Exit conference

- Held upon completion of field work and after supervisory review and FAO manager approval (or all management reviews if RAM/DAM review is required).
 - ➔ Discuss audit results and obtain contractor's views concerning the findings/conclusions/recommendation for inclusion in the report as required by GAGAS.
 - ➔ Inform contractor that results are subject to management review, if held prior to FAO manager's final review.
- Invite the requestor/contracting officer to the exit conference, especially if there are major or complex audit issues.



Auditor Communications

Exit conference

- Except for audits of forecasted costs subject to negotiations, provide contractor a copy of draft report or draft results of audit section
- To facilitate the discussion and obtaining contractor's views, this information may be provided prior to the exit conference if applicable management reviews have been completed.
- If the report includes forecasted costs subject to negotiations:
 - ➔ Do not provide the contractor a copy of the draft report or results.
 - ➔ Limit the discussion to factual matters/differences.



Auditor Communications

Exit Conference

- Information provided to contractor at or in anticipation of the exit conference (e.g., draft report or factual information) should be concurrently provided to the requestor/contracting officer
- The draft audit report and other electronic files provided should be given the same protection as the final audit report.



Auditor Communications

Exit conference

- FAO manager may approve release of the draft audit report on a proposal to the contracting officer
 - ➔ after the exit conference
 - ➔ when final report will be issued shortly (within 5 days).
- May be released before FAO manager completes the final review, if he/she believes it is appropriate based on his/her involvement with the audit, and/or the complexity of the audit and experience of audit team.
- Draft report should be clearly marked draft and subject to change based on final management review until the final report is issued.



Auditor Communications

Exit conference

- Document the results of the exit conference in the working papers in accordance with CAM 4-304.
 - ➔ Include date, participant's names and titles, and specifically discussed items and contractor's reaction.
 - ➔ Provides information to be included in the audit report required by CAM 10-210.5e.(1).
 - ➔ Should include copies of the draft report or other information provided.
- FAO manager's approval to proceed with the exit conference should also be documented in the working papers.



Auditor Communications

Post report issuance

- Auditors should provide assistance as needed for requestor/contracting officer to understand the audit conclusions and rationale.
 - ➔ Does not impair an auditor's independence.
- Assistance may involve:
 - ➔ Answering questions informally
 - ➔ Attending negotiations
 - ➔ Attending DCMA Boards of Review
- Document support of negotiations or Boards of Review in accordance with CAM 15-404 and CAM 1-403.4, respectively.



Auditor Communications

Supporting negotiations

- It is DCAA policy to support contracting officer negotiations, especially for complex submissions with significant audit issues.
- Attendance at pre-negotiation meetings with the contracting officer when requested to discuss audit report results is also encouraged.
- Providing technical advice to help the contracting officer understand audit report results does not impair auditor independence.
 - ➔ Answer questions about audit rationale/ computations.
 - ➔ Give technical advice on contractor rebuttals and contractor data provided at negotiations.



Auditor Communications

Supporting negotiations

- Contractors may provide data to support their proposed positions in anticipation of or during negotiations.
 - ➔ May be in response to reported audit findings.
 - ➔ Contracting officer may request assistance in understanding how the data impacts reported audit conclusions.
 - ➔ Auditor should support the contracting officer, to the extent possible, by providing advice on the data.



Auditor Communications

Supporting negotiations

- Use judgment regarding whether a supplemental report is more appropriate (e.g., data is complex and/or represents a significant update to the audited proposal and requires extensive review or analysis).
- When a supplemental report is not issued, clearly mark documentation provided of work performed to distinguish it from audit report results.
 - ➔ For example, note that it contains advice provided in support of negotiations and does not represent audited data.



Auditor Communications

Supporting negotiations

- Document the results of support of negotiation in accordance with CAM 15-404.
- File the MFR in Livelink in the same folder with the official audit working paper files (see CAM 4-407e(9)).



Auditor Communications

Discussion