

**Master Document – Audit Program**

<b>Activity Code 17740</b>	<b>Preaward Survey of Prospective Contractor Accounting System</b>
<b>Version 6.0, dated May 2011</b>	
<b>B-1</b>	<b>Planning Considerations</b>
<b>Purpose and Scope</b>	
<ul style="list-style-type: none"> <li>• 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.</li> <li>• If requested to perform a Preaward Survey of Prospective Contractor Accounting System Audit on a contractor that has an <b>active</b> 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.</li> </ul>	
<b>References</b>	
<ol style="list-style-type: none"> <li>1. CAM 5-200, “Pre-Award Surveys and Adequacy of Accounting System for Contractual Requirements”</li> <li>2. FAR 9-105, “Procedures (for determination of contractor’s responsibility)”</li> <li>3. FAR 9.106, DFARS 209.106, PGI 209.106, “Preaward Surveys”</li> <li>4. FAR 52.216-16(g), “Quarterly Limitation on Payments Statement” (FPI contracts); and FAR 52.232-20, “Limitation of Cost.”</li> </ol>	

<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
<b>Version 6.0, dated May 2011</b>		
<b>1.</b>	<b>Research and Planning</b>	
	a. Review the audit request and contact the Contracting Officer (CO) to ensure that the audit scope addresses any customer concerns that will impact the assessment of audit risk and adjust the audit scope	

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and associated audit procedures accordingly.	
b. Obtain information on the proposed Government contract (e.g., type and amount of contract, special contract provisions, etc.).	
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).	
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.	
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.	
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: <ul style="list-style-type: none"> <li>• Handbook on Fraud Indicators for Contract Auditors, Section II. (IGDH 7600.3, APO March 31, 1993) located at <a href="http://www.dodig.mil/PUBS/igdh7600.doc">http://www.dodig.mil/PUBS/igdh7600.doc</a>, and</li> <li>• CAM Figure 4-7-3.</li> </ul> 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 identified, document this in working paper B.	
<b>2. Entrance Conference and Preparation</b>	
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	

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audit cycle time and efforts to respond to and issue the audit report.	
<b>3. Initial Risk Assessment</b>	
Using the information obtained in steps 1 and 2, prepare an initial risk assessment to determine the scope of the examination (W/P B).	

<b>C-1</b>	<b>Preaward Survey (SF 1408)</b>	<b>WP Reference</b>
	<b>Version 6.0, dated May 2011</b>	
	Prepare “Preaward Survey of Prospective Contractor Accounting System” (SF 1408) by completing the following audit steps. The latest version of the SF 1408 can be obtained at: <a href="http://www.gsa.gov/portal/forms/download/0494B2B382DD73DA85256A1F006DFF28">http://www.gsa.gov/portal/forms/download/0494B2B382DD73DA85256A1F006DFF28</a>	
	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)	
	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)	
	6. Timekeeping system. Verify that labor is charged to intermediate and final cost objectives based on a timekeeping document (paper or	

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<p>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(g) or FAR 52.232-20? (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 6-1006) (SF 1408, Section II, 3b)</p>	
<p>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)</p>	
<p>15. Accounting system in operation. Is the accounting system in full operation? If not, which portions are in operation and what is the</p>	

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status of implementing the full accounting system? (SF 1408, Section II, 5)	
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<b>A-1</b>	<b>Concluding Steps</b>	<b>WP Reference</b>
<b>Version 6.0, dated May 2011</b>		
<b>1. Summary Steps</b>		
	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. Prepare or update ICQ, as appropriate, based on the results of this audit. Once complete, file document in Electronic Permanent File for future use.	
	g. Update the permanent file.	