

Chapter 5

Audit of Policies, Procedures, and Internal Controls Relative to Accounting and Management Systems

Chapter 5 is currently being rewritten. The Defense Federal Acquisition Regulations (DFARS) was updated, and established a Contractor Business System clause at DFARS 252.242-7005. This clause defines contractor business systems as the Accounting System, Estimating System, Purchasing System, Earned Value Management System (EVMS), Material Management and Accounting System (MMAS), and Property Management System. DCAA is responsible for audits of the contractor's Accounting System, Estimating System, and MMAS. DCMA is responsible for oversight of the EVMS, Purchasing System, and Property System.

The business system audit programs for the MMAS and Estimating System have been updated for the DFARS changes and are available on the intranet. The accounting system audit program is currently being piloted by the Headquarters Business System Team, and will be made available on the intranet upon completion of the pilot.

If during the course of other audit work, an audit team identifies a significant deficiency pertaining to any business system (including those DCMA has responsibility for), they should prepare a deficiency report.

The guidance pertaining to Preaward Surveys of Prospective Contractor Accounting Systems Surveys was not impacted by the DFARS change, so that guidance is still included below for reference (5-200) until the Chapter rewrite is complete.

If your office is performing a business system audit, or if you have any questions regarding business system audits, please contact PAS at DCAA-PAS@dcaa.mil.

5-200 Section 2 - Preaward Surveys of Prospective Contractor Accounting Systems s **

5-201 Introduction **

This section provides guidance for performing preaward surveys of prospective contractor accounting systems. The audit programs and report "shell" for the preaward survey of a prospective contractor accounting system is available on the Agency Intranet and in the APPS.

5-202 Preaward Survey of a Prospective Contractor's Accounting System **

a. A preaward survey of a prospective contractor's accounting system is an

examination of the accounting system at either a large or small contractor before contract award. The audit is performed at the request of a contracting officer to determine the acceptability of a contractor's accounting system for accumulating costs under a prospective Government contract. It is usually requested as part of an overall preaward survey of a contractor conducted by a contract administration office under [FAR 9.106](#) or [DFARS 209.106](#) or [PGI 209.106](#). The audit scope should be limited to obtaining an understanding of the design of the prospective accounting system so as to appropriately complete [Standard Form 1408](#), "Preaward Survey of Prospective Contractor Accounting System" (see [FAR 53.301-1408](#)) and those procedures essential to reach an informed opinion on whether or not the design of the prospective contractor's accounting system is acceptable for accumulating costs under a Government contract. It is not necessary to conduct an in-depth evaluation of the operational effectiveness of the accounting system.

b. When performing the preaward survey of a prospective contractor's accounting system, the auditor will determine the acceptability of the design of the contractor's system and determine if the system is:

- (1) in operation, or
- (2) set up, but not in operation,

The [SF 1408](#) also discusses accounting systems which are either anticipated or nonexistent. It is not possible to perform an examination level engagement under those circumstances since procedures would most likely be limited to inquiry alone. If requested to perform an audit for an accounting system that is either anticipated or nonexistent, the auditor or supervisory auditor should notify the requestor that we are unable to provide an audit report or SF 1408, but will be available to do so once the system is set up or in operation.

c. If a prior preaward survey of a prospective contractor's accounting system has been performed and is relatively current, it should be provided to the requestor. If the prior preaward survey is not current, perform an examination of sufficient scope and depth to evaluate the acceptability of the design of the contractor's accounting system for accumulating costs under a Government contract. If a recent preaward audit disclosed deficiencies that are considered material weaknesses, a follow-up audit can be performed to evaluate corrective actions taken provided the original audit was completed in the last 12 months and there have been no significant revisions to the design of the accounting system. The scope of the follow-up audit is limited to verifying there have been no significant revisions to the design of the system (other than those required as corrective action to cited deficiencies) and whether the corrective action adequately addresses the deficiencies. If the follow-up discloses no significant revisions to the system design and that the contractor corrected the deficiencies, the report should indicate that the contractor has effectively implemented corrective action and the accounting system is suitably designed, in all material respects, for award of a prospective contract in accordance with the criteria contained in [FAR 53.209-1\(f\)](#). A proforma version of the preaward accounting system follow-up report is available as

other audit guidance.

d. If requested to perform a preaward accounting system audit on a contractor that has an active Government contract, the auditor should check the files to determine if prior work has been performed that will provide the contracting officer the information necessary to fill in the SF 1408 without the completion of the preaward audit (e.g., if a prior preaward or post contract award accounting system audit has been performed). If prior information does exist, contact the contracting officer to determine if the prior report will meet their needs. Additionally, if there are known system deficiencies or voucher processing problems, this information should be provided to the contracting officer as well. Auditors should not issue an opinion stating the design is acceptable for award when there are known deficiencies in the operating effectiveness. If no information is on file, the auditor should proceed with performing the preaward as requested.

e. A customer request for a preaward survey of a prospective contractor's accounting system should be started as soon as practicable. An untimely response to such a request could delay the award of a contract. Acknowledge the request in accordance with CAM 4-104.

f. If the contracting officer also requires an assessment of the company's financial condition during the preaward survey of the prospective contractor's accounting system, refer the requestor to DCMA (see CAM 14-302). However, in all audit situations, auditors should be alert to conditions which may indicate unfavorable or adverse financial conditions or other circumstances which could impede a contractor's ability to perform on Government contracts.

5-204 Audit Reports **

Audit reports should be responsive to the specific needs identified by the audit request and in discussions, if any, with the requestor. The report "shell" is available on the DCAA Intranet and in the APPS. The preaward survey report provides an opinion on whether the accounting system design is compliant with the criteria contained in [FAR 53.209-1\(f\)](#), Standard Form 1408 (SF 1408), is not compliant with the criteria contained in the SF 1408, or compliant with a recommendation that a follow-on accounting system audit be performed after contract award. The audit report should be appropriately tailored to the specific circumstances of the audit. Audit reports should also provide sufficient information (e.g., SF 1408 for the preaward) to support audit conclusions. Refer to CAM 10-211.2c for guidance in presenting the Statement of Conditions and Recommendations, if applicable.