



Preparing for a DCAA Incurred Cost Audit

An audit of your company's Incurred Costs Proposal can be a very stressful ordeal. What you may not know is that the DCAA is placing a special emphasis on ICP audits in 2012, and you need to be completely prepared. This checklist will inform you so that you know exactly what a DCAA auditor will be looking for when they review your ICP. We invite you to share this resource with your friends and clients in the government contracting industry.

***Taken from the DCAA Audit Manual, para 6-1S1 Supplement-- Schedule of Mandatory Annual Audit Requirements (MAARS)**

Number and Title	Objectives	Purpose	Reference
1. Internal Control Audit Planning Summary and/or Internal Control Questionnaire (ICQ) Audit Planning Sum	Document/update in the permanent files the internal control audit planning summary and/or the internal control questionnaire and evaluate changes in contractor's internal controls.	Determine the extent of reliance that can be placed on the internal controls for contract costs and the need for and extent of substantive testing that may be required based on the observed strengths or weaknesses of contractor systems.	3-300,5-100, 5-111
2. Contract Cost Analysis and Reconciliation to Books	Evaluate summaries of the contractor's total annual contract costs by major cost element (material, subcontracts, intracompany charges, and credits, etc.), and verify that the auditable contract costs reconcile to contractor accounting records by cost element (typically using work-in-process or other contract control accounts in the general ledger).	To provide an overview and order-of-magnitude frame of reference for direction of audit effort and other audit planning/performance considerations, and to verify that the auditable costs claimed or to be claimed on Government contracts tie in to the amounts produced by the accounting system in the contractor's official books and records.	6-610.1
3. Permanent Files	Maintain/update permanent files for new or changed contractor organization operations, policies, procedures; internal controls software programs, and accounting methods that influence the nature, level, and accounting treatment of costs being charged to Government contracts. Update documentation of contractor contract briefing system or update auditor-prepared briefs.	To provide an efficient and effective repository of current audit information. Permanent file maintenance should help identify the need for further audit and analysis, and help in determining the accounting methods that influence the nature, level and extent of further testing required in specific cost accounts, functions, operations, and departments.	3-202.1, 3-202.2, 4-405
4. Tax Returns and	Evaluate applicable tax returns,	To highlight possible areas to reduce	3-104.16c



Financial Statements	financial statements, and other publicly available data of the contractor.	the extent of DCAA audit effort that might otherwise be required.	
5. General Ledger, Trial Balance, Income and/or Credit Adjustments	Analyze the contractor's general ledger, trial balance, and other income/accounting adjustments (for example, unusual and/or sensitive journal entries).	To help identify any income and credits which the Government may be entitled to obtain or share, and to evaluate the exclusion of any adjustments not reflected by the contractor in Government contract costs.	6-608.2d(5) 6-608.3b(1)
6. Labor floor Checks or interviews	Perform floor checks, interviews, and/or other physical observations and related analysis of employee timekeeping on a concurrent basis.	To test the reliability of employee time records, that employees are actually at work, that they are performing in the assigned job classifications, and that time is charged to the proper cost objective	6-402c, 6-404, 6-405
7. Changes in Charging Direct/Indirect Cost	Evaluate changes in procedures and practices for charging direct/indirect cost for consistency with generally accepted accounting principles, the applicable cost principle per contracts, and any applicable CAS requirements.	To verify that changes in charging direct/indirect cost do not have the effect of improperly shifting costs among cost objectives or circumventing cost targets or ceilings of certain contracts or other significant cost categories.	5-911.1, 6-404.6b(4), 6-407.2, 6-504.1, 6-603.4, 6-604.1
8. Comparative Analysis-Sensitive Labor Account	Perform comparative analysis of sensitive labor accounts.	To identify for further examination any sensitive labor changes (for example, indirect charging by direct labor employees) that vary significantly from the prior period and/or budgetary estimates.	5-911.1, 6-404.6b(4) (b)
9. Payroll/Labor distribution Reconciliation and Tracing	Evaluate the contractor's labor cost distribution.	To test the overall integrity of labor cost records at the general ledger and the cost ledger levels, and to reconcile payroll accruals and disbursements, making sure that distribution entries trace to and from the cost accumulation records.	6-406.2a (6), 6-406.1
10. Adjusting Entries and Exception Reports	Evaluate adjusting journal entries and exception reports for both direct and indirect costs. Evaluation for direct costs should include labor, ODC's, purchased services, and material (including subcontract costs and intracompany charges).	To identify adjustments and/or exceptions that require further audit analysis and explanation	5-913.1, 6-305.3a(1), 6-404.6b (6), 6-608.2c(2)
11. Reserved			



12. Audible Subcontracts/Assist Audits	Evaluate auditable type subcontracts and intracompany orders issued by the contractor under auditable type Government contracts and subcontracts, and request any needed independent assist audits.	To protect the Government's interest concerning the ensuing costs.	6.310.1, 6-802.2d & j, 6-802.4a, 6-802.5, 6-803, 6-805, 6-806
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