

MAS Audit Practices:

1. **Audit Standards** - MAS conducts audits of contractors (SBE or Non-SBE) in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.
2. **Audit Criteria** - MAS uses the terms and conditions provided in either the Request for Proposal (RFP) for pre-negotiation/pre-award audit or the executed contract for incurred cost audit as the criteria for the audit. Additionally, both the RFP and the contract include provisions for the contractor to comply with the Federal Acquisition Regulation (FAR) Part 31, Contract Cost Principles and Procedures. The SBE can either be the Prime Contractor or the Subcontractor in the contract with Metro. Since the flow-down provision from the Prime Contract agreement to the Subcontractor agreement usually includes the FAR Part 31 requirements, the audit criteria are identical for SBE and non-SBE contractors.
3. **Audit Process** - Upon receipt of the audit request from VCM, an initial kick off meeting is held with the requesting Contracting Officer to agree on the audit objectives, timeline, and scope of the audit. Once an agreement is reached, MAS evaluates the availability of staff within the department. If staff is available, MAS initiates the audit project and assigns it to staff auditor and manager. If staff is not adequate, MAS works with VCM to procure services of consultant auditor from the audit bench. Solicitation of proposals from the audit bench and the selection of the consultant auditor follow the established procurement process for staff augmentation and/or outsourcing. Once the audit is initiated, the audit will go through the following phases:
 - a. Planning Phase - MAS sends the SBE an audit notification letter stating the audit objective, scope, timeline, and contact information of the assigned auditor. The letter also includes the request for initial documents necessary to complete the planning phase of the audit such as internal control questionnaire, copies of audited or unaudited financial statements and indirect cost rates. The planning phase includes the review of prior audit reports, determination on whether MAS can rely on the work of other auditors, preparation of the risk assessment, sampling methodology, internal control assessment, and audit work plan.
 - b. Fieldwork Phase – At the conclusion of planning, MAS performs the actual substantive/transaction testing which requires the contractors to provide relevant supporting documentation to validate the proposed costs, incurred costs, and indirect cost rates. The level of supporting documents

required from the contractors vary depending on the nature of the proposed or incurred costs (e.g. employee timesheets, payroll registers, tax returns, indirect cost rates submission) The auditors' testing are by cost elements such as direct labor, overhead, other direct costs, etc. The test results provide evidences for the auditors conclusion in determining whether 1) the costs are in compliance with the audit criteria (RFP or contract terms and FAR part 31) and 2) whether the costs are allowable, allocable to Metro contract/project, and reasonable.

- c. Reporting Phase – At the conclusion of field work, MAS holds two exit conferences 1) with the Contracting Officer/Contacting Administrator and 2) with the Contractor Management. Each of these parties receives the findings of the audit. However, the level of shared information to the contractor varies between a pre-award/pre-negotiation audit and incurred cost audit as follows:
- i. For the pre-award/pre-negotiation audit, the auditors provide the contractors the nature of the findings without sharing the actual questioned costs. This is done to avoid compromising the Contracting Officer's position during the negotiation process. MAS issues the final report only to the requestor (Contracting Officer/Contacting Administrator) who has the option to share the report with the contractor once negotiations are completed.
 - ii. For the incurred costs audit, the auditors issue a draft audit report with all the findings, associated questioned costs and the resulting over/under payment made by Metro to the contractor. The contractor is provided at least two weeks to respond to the findings however; additional time is allowed upon request. The auditors incorporate the responses received prior to the issuance of the final audit report. If the contractor provided additional information, not previously provided to the auditor, that warrant changing the auditor's findings and conclusions, the issued final audit report will reflect the resulting changes. The final audit report is issued to the requestor (Contracting Officer/Contacting Administrator) who shares the report with the contractor if requested.