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IN REPLY REFER TO

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MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Contractor Employees Who Work at Home (WAH)

Background

As a result of inquiries received from field offices, we are providing audit guidance on minimum internal controls necessary for work at home policies to be considered acceptable for government contract costing. We will continue to monitor the development of WAH programs, and as we gain more experience and knowledge in the future we will issue additional guidance.

General Guidance

When a WAH program is identified, FAO auditors should first assess the materiality of the costs associated with the contractor's employees who work at home. If costs are determined to be material, the contractor's written policies and procedures covering the program should be reviewed to determine if adequate controls over the WAH practices are in place. If the costs are not material and the contractor does not have written policies, the auditor should establish acceptability of the employee's labor costs by other means. In addition, evidence of work performed by the employee should be obtained.

Internal Control Issues

a. Materiality

The determination of materiality should consider factors such as the total number of contractor employees, the number of employees under the WAH program, the dollar amount of WAH labor, and the mix of contracts. If the cost of the WAH program is immaterial, the contractor should be notified in writing that when WAH costs become material, the government will require a demonstration of the adequacy of the internal controls over the WAH program.

b. Policies and Procedures

If the contractor's labor costs associated with WAH are material, the contractor should have written policies and procedures covering the program. The policies should address at a minimum the employee's eligibility, employee working status, approval requirement, employee work schedule and performance evaluation, equipment provided, and timekeeping procedures.

c. Employee Eligibility and Status

The few WAH programs identified by the field offices contained restrictions regarding employee eligibility. These programs are usually offered to employees on an exception basis for situations where attendance at the company facility is a hardship such as when an employee is injured. However, adequate policies should describe the type of work that may be performed at home. For example, work that must be closely supervised, requires access to non-portable equipment or depends on the frequent interaction with others, cannot be performed at home. If WAH is material, the contractor's policies should also state the status of employees working at home (e.g., full time, part-time, temporary, etc.) and the employee's eligibility for benefits such as insurance and leave.

d. Approval Policy

Good internal controls over WAH require proper advance approval by appropriate management officials. Continuing review of the participating employee's performance should also be a requirement of a good internal control system. This issue will be discussed further under work schedule below.

e. Work Schedule, Employee Performance, and Attendance

Good internal controls over the employee's work schedule are particularly important to assure that work is being performed. A good system of internal controls will require a written document to plan and document work performed. Specific tasks to be performed should be annotated on the document along with expected completion dates. In addition, an assessment of the employee's performance in completing assigned tasks should be made on an ongoing basis.

Another issue unique to WAH programs concerns attendance. Although the employee's work site is the home, periodic meetings at the contractor's work site should be required to allow the employee and supervisor to discuss work progress, assign new tasks, and evaluate work performed. In addition, good internal controls should require employees to work a mutually agreeable set of core hours. This requirement allows management to have access to the WAH employee at designated times.

f. Timekeeping Requirements

WAH employees should be required to submit timecards in accordance with the company-wide timekeeping system. Copies of the timecards should be kept at the company facility by the employee's supervisor.

Audit Guidance

If during a floorcheck, several employees are identified as not present due to a WAH program, the contractor should be requested to provide their policies and procedures for the program, and the list of employees participating in the program to help determine the materiality of the labor costs associated with the WAH program. If the costs are material, the auditor should assess the adequacy of the internal controls in place over the WAH program. The auditor should also floorcheck the employees at a later date or interview them over the phone. If the contractor does not have adequate written policies and procedures, the contractor should be cited for a labor accounting system deficiency, usually under the Labor Authorization/Approval or Timekeeping control objectives.

The principal audit concern for WAH programs is how to perform a floorcheck of the employee. When an employee selected to be floorchecked is not present at the normal work-site due to a WAH program, the employee's supervisor should be interviewed. Discussions with the supervisor should concentrate on obtaining evidence of the employee's work, and documented evidence of supervisory control over the employee's WAH schedule. The auditor should also communicate with the employee by telephone to determine if the employee has knowledge of WAH procedures, and discuss specific type of work being performed along with the related labor charge numbers. If the employee has a regularly scheduled meeting with the supervisor in the near future, the employee may be floorchecked at that time. In addition, the individual's employment should be verified to the payroll/personnel records.

Summary

At this time, the majority of contractor's WAH programs do not appear to result in a material amount of labor costs charged to government contracts. Therefore, we believe other means than physical observation may be used to substantiate the existence of the employee and the work performed. A combination of discussions with the employee's supervisor, telephone interviews of the employee, and review of evidence of work performed will satisfy internal controls for government contract costing purposes. If the contractor has a material amount of costs associated with employees who work at home, the contractor should have adequate written policies and procedures. We will continue to monitor the development of contractor WAH programs and, if warrant, provide additional guidance.

FAO personnel should direct any questions they may have regarding this memorandum to their regional office. Any regional office questions should be directed to Mr. Peter Roppolo, Chief, Incurred Cost Division, at (703) 767-3245, or e-mail at peter.roppolo@dcaa.mil.

/s/
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