

**Master Document – Audit Program**

<b>Activity Code 11010</b>	<b>Billing Audit</b>
<b>Version 1.14, dated November 2015</b>	
<b>Audit Specific Independence Determination</b>	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 34) prior to starting any work on this assignment.</p>	
<p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g., FAO technical specialist) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p>	
<b>B-01</b>	<b>Planning Considerations</b>
<p>1. This assignment is a sub-assignment to the 11070 Accounting System Audit controlling assignment, which will report on the contractor’s compliance with all 18 DFARS 252.242-7006 system criteria. The objective of this audit is to examine the contractor’s compliance with the system criteria related to billings at DFARS 252.242-7006(c)(15)(i) and (16). As a part of that objective, auditors will:</p>	
<ul style="list-style-type: none"> <li>• Obtain and document an understanding of internal controls material to the billings on government contracts, grants or cooperative agreements.</li> </ul>	
<ul style="list-style-type: none"> <li>• Perform testing of contractor billings and test key characteristics of the billing process to:             <ul style="list-style-type: none"> <li>○ Determine if billings were prepared properly and in accordance with contract billing terms; and</li> <li>○ Identify overbillings/overpayments and pursue adjustments as needed.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>• Report any significant deficiencies/material weakness identified during the audit related to the contractor’s compliance with the criterion at DFARS 252.242-7006(c)(15)(i) and (16).</li> </ul>	
<p>2. Although, the objective of this audit is to determine the contractor’s compliance with the DFARS criteria and to report significant deficiencies based on the DFARS definition of a significant deficiency, GAGAS require auditors to include in the audit report material weaknesses based on the auditing standards definitions. A significant deficiency based on the DFARS definition will also generally represent a material weakness in internal control as defined in the auditing standards. Therefore, the term significant deficiency/material weakness as used throughout the audit program refers to a deficiency meeting the DFARS definition of a significant deficiency and the auditing standards definition of a material weakness.</p>	
<p>3. GAGAS also require auditors to report, based on the work performed, deficiencies, or a combination of deficiencies, in internal control that are less severe than material weaknesses (and, hence, also less severe than a significant deficiency as defined by the DFARS), yet important enough to merit the attention of those charged with governance (i.e., responsible contractor management officials). Auditors are not required to design audit procedures to</p>	

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identify these less severe deficiencies. However, if they are disclosed during the audit they must be reported and should be included in the MFR so that they can be reported in the audit report on the contractor's accounting system (under the 11070 controlling assignment). The billing audit MFR shell includes the appropriate language and presentation. Since these less severe deficiencies do not materially affect the Government's ability to rely on the information produced by the system, they do not need to be reported in real-time deficiency reports issued during the course of in-process business system audits or at the completion of a business system sub-assignment. However, they are important enough to warrant the attention of the responsible management officials; therefore, they should be communicated to those contractor officials in a timely manner. When and how to communicate such matters is a matter of auditor judgment in consultation with the supervisor. When these less severe deficiencies are communicated early to responsible management officials, GAGAS require that they still be included in the 11070 controlling assignment audit report.

4. The audit program is designed so that the audit can be performed in one or more phases over the course of a 12-month testing period. Certain audit program sections will be repeated during each phase of the audit, while other sections will only be performed during the first phase. Each audit program section includes instructions explaining when the steps should be performed. If the audit is not performed in more than one phase, all sections should be performed. The determination of whether or not to perform the audit in one or more phases should be based on auditor judgment considering the circumstances related to each contractor and audit.
5. This program can be used at major or non-major contractors. The steps in the program should be discussed by the audit team and tailored as applicable for your contractor/location. If the entity is a Non-profit, Federally Funded Research and Development Center (FFRDC) (excluding those operated by Educational Institutions), or State and Local Government, the auditor should modify the program below to include specific procedures in accordance with the OMB Circulars applicable to that entity. However, before performing this audit at one of these types of entities, coordinate with the cognizant agency for audit to determine the need for the audit.
6. This program is designed to use a teaming approach that includes discussions among the audit team members regarding, for example, potential kinds of fraud and other noncompliances, and the major aspects of the audit (e.g., major billing areas, understanding of the system, etc.). These discussions should generally include auditors from the offsite billing locations. Due to the complexities of this audit, significant upfront coordination with the contractor is required. Therefore, the program also includes a planning meeting with contractor personnel prior to the formal entrance conference to notify the contractor of the upcoming audit and to inquire about the locations of the billing departments to determine if coordination with other DCAA offices is necessary. The planning meeting is also used to schedule the entrance conference and request that the contractor provide a general overview of the system at the entrance conference. Another important aspect of this audit is that the contractor provides detailed walkthroughs/demonstrations of its system. The details of these meetings are presented in the preliminary steps of the audit program.
7. Upon completion of this audit the results will be summarized in a memorandum for record (MFR) to be reported as a part of the audit of the contractor's accounting system, which will report on the contractor's compliance with all 18 DFARS 252.242-7006 system criteria (the

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<p>11070 Accounting System Audit controlling assignment). If significant deficiencies/material weaknesses are identified as a result of this audit, auditors should not wait for the completion of the Accounting System Audit to report the deficiencies unless that report is expected to be issued in the near future. Instead, a deficiency report should be issued under the Billing Audit assignment number using the deficiency report shell which can be added in APPS through the Library Access. (A deficiency report does not replace the MFR. The overall results of the audit should be documented in an MFR even when a deficiency report is issued.)</p>
<p>8. Because of the importance of timely communication of deficiencies, it also may be appropriate in some cases to issue a deficiency report on a significant deficiency/material weakness on a real-time basis prior to completion of this audit. In those cases, the deficiency report will not be issued under the Billing Audit assignment number. Instead a separate assignment will be set up using the Deficiency Report activity code. The Deficiency Report Assignment should not be established until there is sufficient evidence that a significant deficiency/material weakness exists and the elements of a finding for the deficiency are fully developed in this assignment (see CAM 10-409). Whether to issue the deficiency report during the course of the audit or at the completion of the audit is a matter of auditor judgment, depending on the specific circumstances.</p>
<p>9. Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.</p>
<b>Definitions</b>
<ul style="list-style-type: none"><li>• <b>Contract Overpayments.</b> Overpayments are payments that the contractor receives that are in excess of billed amounts (generally due to duplicate or erroneous payments/paying office errors). Overpayments may also result from differences between recorded and billed costs (e.g., contractor billing errors).</li></ul>
<ul style="list-style-type: none"><li>• <b>Contract Debts.</b> Contract debts are amounts that have been paid to a contractor to which the contractor is not currently entitled or are otherwise due from the contractor under the terms and conditions of the contract. Contract debts may result from overpayments due to paying officer errors or contractor billing errors, as well as other circumstance such as price redetermination or determination of prices under incentive type contracts, reductions for defective pricing, CAS noncompliances, progress payment adjustments due to a contract loss position, etc. See FAR 32.601 for additional circumstances that may result in contract debt.</li></ul>
<ul style="list-style-type: none"><li>• <b>Demand Letters/Demand for Payment.</b> Demand letters are issued by the paying office or contracting officer demanding payment of specified amounts by the contractor for contract debts. See FAR 32.604 for additional information.</li></ul>
<ul style="list-style-type: none"><li>• <b>Refunds.</b> Contractor payments to the Government for the liquidation contract debt.</li></ul>
<ul style="list-style-type: none"><li>• <b>Accounting for Progress Payment Liquidations.</b> The Government liquidates (recoups) progress payment amounts previously provided to contractors by deducting these amounts from the payment requested on the appropriate contractor delivery invoice. Consequently, the contractor should have procedures for recording, in its accounting records, the net</li></ul>

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delivery invoice amount that reflects the reduction of the delivery invoice amount by any prior progress payments requested by the contractor and paid by the Government.

<b>B-01</b>	<b>Preliminary Steps</b>	<b>W/P Reference</b>
	<b>Version 1.14, dated November 2015</b>	
	As noted in item 2 under Planning Considerations, this audit may be performed in one or more phases to best address the circumstances of the audit. All of section B should be performed during phase 1. During subsequent phases, if applicable, the auditor should identify any changes and/or additional risk factors noted during phase 1 so they can be considered when preparing the plan for selecting items for testing.	
	<p><b>1. Research and Planning</b></p> <p>The audit report on the 11070 Accounting System Audit controlling assignment will report on the contractor’s compliance with the system criteria <u>during a period of time</u>, consistent with the attestation reporting standards (AT 601.55b). The 11070 Accounting System Audit is performed every three years and will incorporate the results of the billing audit applicable to the period covered by the 11070 audit. Therefore, when planning this audit, the auditor should consider when the next 11070 Accounting System Audit will be performed and whether the results of this billing audit will be incorporated into the accounting system audit. If that is the case, the period covered for the billing audit should be planned in coordination with the 11070 controlling assignment and items should be selected for testing accordingly. The period covered should be selected so as to limit the elapse of time between the period of the items tested and the issuance of the report on 11070 Accounting System Audit to the extent possible. For example, the audit team may decide to wait until it has obtained and documented the understanding of the system before finalizing the period covered by the audit.</p>	
	a. Review permanent file and document:	
	(1) Audit leads and Form 1s impacting this assignment and fraud referrals (DCAA Form 2000) which have been made or are in process.	
	(2) Other relevant information to include environmental factors, the nature of the entity, and changes from the prior period. This information may be available in the contractor’s annual Form 10-K report, quarterly Form 10-Q report, Interim Form 8-K reports (if applicable - to cover special material events that occur between 10-K and 10-Q filings), and its annual report to shareholders. (also see step 1b(6)).	

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<p>Note – Environmental factors include industry conditions, such as the competitive environment, supplier and customer relationships, and technological developments; the regulatory environment encompassing among other matters, relevant accounting pronouncements and regulatory requirements, the legal and political environment, and environmental requirements affecting the industry and the entity; and other external factors, such as general economic conditions. The nature of the entity refers to the entity’s operations, its ownership, governance, the types of investments that it is making and plans to make, the way the entity is structured, and how it is financed. An understanding of the nature of an entity enables the auditors to understand the classes of transactions, account balances, and disclosures to be expected. Identifying significant changes in the environment and entity from prior periods is important in gaining a sufficient understanding of the entity to identify and assess risks of material misstatements.</p>	
<p>(3) Results of prior audits of the billing system (11010) and other related billing audits (e.g., review of interim vouchers, 11015 paid voucher, 17500 progress payment, 17600 financial capability, 10110 A-133 audits, deficiency reports, flash reports, limited scope audits related to the billing system, etc.). If progress payments audits have been performed covering the same period as the current audit consider the extent of reliance that can be placed on that effort when determining the universe of billings for selection of items for testing in section C-01 and performing the audit procedure steps in section I-01 Progress Billings Based on Cost.</p>	
<p>(4) Impact on this examination from other internal control audits or the Survey of Contractor’s Organization, Accounting System, and System of Internal Controls (ICQ) if applicable.</p>	
<p>(a) Determine if there is a current audit assessment of the control environment. If so document results and impact.</p>	
<p>(b) Determine if there is a current audit assessment of the IT General Systems controls. If so document results and impact.</p>	
<p>(c) Document results and impact of the accounting system audit and other internal control assignments (e.g., labor, material, indirect and other direct costs, etc.).</p>	
<p>(5) Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and</p>	

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<p>perform the following procedures:</p> <p>(a) During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.</p> <p>(b) Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.)</p>	
<p>(6) Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <p>(a) During the entrance conference:</p> <ul style="list-style-type: none"> <li>• Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.</li> <li>• Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result.</li> </ul> <p>(b) If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"> <li>• Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment.</li> </ul>	

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<ul style="list-style-type: none"> <li>• Document the results of the determination in writing.</li> <li>• If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.</li> <li>• If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports.</li> <li>• The request, issued by the CAC, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers.</li> </ul> <p>(c) If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> <li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li> <li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li> </ul> <p>(d) Document the results of the inquiries including the response received from contractor’s for any request for access to internal audit reports. (If access was not granted this should include the contractor’s rationale or justification for not granting access).</p> <p>(e) Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit).</p>	
<p><b>2. ACO/Paying office</b></p>	
<p>a. Contact the ACO to:</p> <ol style="list-style-type: none"> <li>(1) Identify ACO concerns related to billings and determine what information the ACO has or can obtain regarding contractor billings that may be useful to the audit.</li> <li>(2) Obtain a list of contract debts (see definitions under Planning Considerations) for which payment was collected from the contractor over the prior 12 months. (These lists will be used in section E of the audit program.)</li> <li>(3) Obtain a list of demand letters issued to the contractor for which payment is currently outstanding (regardless of when the demand letter was issued). (These lists will be used in section E of the audit program.)</li> </ol>	

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<p>(4) Electronically transmit an acknowledgement/notification to the ACO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
<p>b. Review information in Wide Area Work Flow (WAWF), System for Award Management (SAM) and DMIS (contractor table) to identify DUNS codes and CAGE codes used by the contractor for billing purposes.</p>	
<p>c. Provide your RST/TPD focal point the contractor’s DUNS codes and CAGE codes and request the focal point to obtain the following information for the prior 12 month period from DFAS, if available:</p> <ul style="list-style-type: none"> <li>(1) Billings rejected by DFAS/other paying offices and the reason the billing was rejected.</li> <li>(2) Demand letters issued by DFAS/other paying offices to the contractor for which payment is currently outstanding (regardless of when the demand letter was issued). (This list will be used in section E of the audit program).</li> <li>(3) Payments collected in response to demand letters or other refunds from the contractor processed by DFAS over the prior 12 months (This list will be used in section E of the audit program).</li> </ul>	
<p>d. Review billings that were rejected by DCAA, other approving officials, and paying offices in order to identify trends and errors which are frequently repeated. Consider the trends and errors when designing the audit procedures to test contractor billings. If there are a significant number of errors (e.g., high percentage of rejected billings) this could be an indication of systemic problems. A deficiency report should be issued when sufficient evidence has been obtained and the auditor can demonstrate compliance with other GAGAS (e.g., adequate planning and supervision).</p>	
<p>3. Hold a planning meeting with the contractor to provide notification of the upcoming audit, inquire about the locations of the billing departments to determine if coordination with other DCAA offices is necessary, to schedule the entrance conference, and to request the contractor prepare a general overview of their system for presentation at the entrance conference.</p>	
<p>4. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be</p>	



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documented in the working papers.	
<p><b>5. Initial Team discussion</b></p>	
<p>Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential noncompliances, due to error or fraud, that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"> <li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),</li> <li>• relevant aspects of the contractor and its environment</li> <li>• risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements),</li> <li>• other known risk factors</li> <li>• the audit team's understanding of relevant internal controls,</li> <li>• inquiries to the contractor regarding its fraud management plans and controls.</li> </ul> <p>Document fraud risk factor/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> <li>• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (<a href="http://gao.gov/products/GAO-12-331G">http://gao.gov/products/GAO-12-331G</a>)</li> <li>• AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (<a href="http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf">http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf</a>)</li> <li>• DoDIG's Contract Audit Fraud Scenarios and Resources website (<a href="http://www.dodig.mil/resources/fraud/resources.html">http://www.dodig.mil/resources/fraud/resources.html</a>)</li> <li>• (To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)</li> </ul>	

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<p>6. Coordination - In cases where this examination covers billing at multi-segment contractors, follow the guidance in CAM 5-103.2 and 5-110(e). Auditing billing processes at multi-segment contractors requires effective coordination among cognizant FAOs to identify the audit responsibilities at each location to ensure appropriate audit coverage when contractor locations share components of system, such as policies and procedures, common technologies (e.g., software) or common management. FAOs cognizant of segment locations should initiate assist audits from off-site locations as necessary. FAOs cognizant of off-site locations should not self initiate audits of billing systems. Coordinate effort needed with other DCAA offices (e.g., CAC, Corporate offices, assist audit offices, FD) as necessary.</p>	
<p><b>7. Entrance Conference and System Demonstrations</b></p>	
<p>a. Preparation of the Contractor Notification letter. Draft the Contractor Notification letter using the shell at working paper 11. The proforma Contractor Notification letter contains a list of information needed from the contractor to perform the audit and identifies the key areas of the billing system that should be addressed during system demonstrations.</p>	
<p>b. Entrance Conference. The purpose of this meeting is to:</p> <ul style="list-style-type: none"> <li>(1) Provide the Contractor Notification letter and discuss the information being requested from the contractor. (Note: Auditors should review the proforma language in the Contractor Notification letter and tailor the letter to fit the circumstances of the current audit. For example, in some cases it may be more effective to inform the contractor that the period for testing will be defined once the understanding of the system is near completion.</li> <li>(2) Discuss the purpose of the audit and matters to be addressed, including billing system demonstration requirements, attendees, length, and location of the meetings, and any other pertinent information;</li> <li>(3) Set the date for the system demonstrations. The demonstrations should be held early in the process; and</li> <li>(4) Have the contractor provide a general overview of the billing system and processes.</li> <li>(5) Follow up with contractor management on corrective actions that address previous DCAA audit findings and recommendations.</li> <li>(6) Follow up with contractor management regarding other studies or audits (e.g., internal auditors, consultants, Independent Public Accountants) that impact the subject matter under audit.</li> </ul>	

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<p>c. System Demonstrations/Documenting an Understanding of the Billing System. The entire audit team should attend the demonstrations if possible.</p> <p>The purpose of the contractor billing system demonstrations is to obtain and document an understanding of the contractor’s internal controls related to the billing system, including those controls that ensure compliance with the DFARS criteria related to the billing system (DFARS 252.242-7006(c)(15)(i) and (16)). <b><u>Inquiry alone is not sufficient to obtain an understanding of the contractor’s internal controls.</u></b> Procedures to obtain an understanding of billing system internal controls include inquiries of contractor personnel, observing the application of specific controls, inspecting documents and reports, and performing walk-throughs of the system (including tracing one or more transactions through the various processing steps). As requested in the Contractor Notification letter, the contractor should provide a walk through of its billing system (presented by the individuals who actually perform the specific billing process) and the supporting policies and procedures, in order to demonstrate each key billing system process for each billing type that is currently being used (i.e., cost voucher, T&amp;M voucher, Progress Billings based on cost, DD250’s, WAWF Receiving Reports (RR), and Performance Based Payments) on Government contracts and subcontracts. During the contractor’s walk through, the audit team should document their understanding of the system to the extent possible (e.g., by making detailed notes on the system documentation provided by the contractor) and should take full advantage of the demonstrations to ask questions to ensure they have a sufficient understanding.</p> <p>It may be necessary to conduct additional one-on-one demonstrations with the process owners at their work site to gain a full understanding of the processes.</p>	
<p><b>8. Finalizing/Summarizing the Understanding of the Billing System</b></p>	
<p>This step will complete the accomplishment of the first objective of the audit. It is critical since the documented understanding will serve as a basis for planning the audit; designing audit procedures to test contractor billings and key characteristics of the billing process; to identify types of potential noncompliances; and to consider factors that affect the risk of material noncompliances.</p>	
<p>a. Using the information obtained during the entrance conference and system demonstrations, finalize and summarize the documentation of your understanding of the contractor’s billing system in W/P B-02 (a sample billing system documentation is embedded in the APPS W/P 11c). The documented understanding should contain a summary (which will be provided to the contractor for confirmation of accuracy), cross referenced to detailed descriptions and information</p>	

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<p>obtained and documented during the contractor’s demonstrations (e.g., flowcharts, policies and procedures, desk procedures, screenshots, etc.). The documented understanding should address the five internal control components described in CAM 5-102c as identified below:</p>	
<p>(1) <u>Control Environment</u> - The most recent audit assessment of the control environment was obtained during the initial planning steps. Update working papers for any additional information related to the assessment of the control environment and the potential impact on contractor billings on Government contracts and subcontracts.</p>	
<p>(2) <u>Contractor’s Risk Assessment</u> – Document how the contractor identifies and addresses risk associated with billings on Government contracts and subcontracts. This information was requested from the contractor in Item 5 of the Billing Audit Information Request.</p>	
<p>(3) <u>Contractor Monitoring</u> - Document the contractor’s activities to monitor the overall operation of the billing process, including provisional billing rates and T&amp;M qualifications. This information was requested from the contractor in Item 6 of the Billing Audit Information Request.</p>	
<p>(4) <u>Information System and Communication</u> – Document the contractor’s process for initiating, processing, authorizing, controlling, reporting, and communicating information related to each type of billing. This information was requested from the contractor in Item 4 of the Billing Audit Information Request.</p>	
<p>(5) <u>Control Activities</u> – Document the critical control activities associated with billings on Government contracts and subcontracts. This will generally include, at a minimum, the key characteristics we requested the contractor to explain and demonstrate during the entrance conference e.g., Item 3 and Items 10 through 21 of the Billing Audit Information Request.</p>	
<p>b. After the understanding of contractor’s billing system internal controls and key processes has been documented and reviewed by your supervisor, obtain a written confirmation from the contractor that the understanding is accurate. A draft confirmation letter is located at working paper 11c.</p>	
<p>c. Summarize the high risk areas identified during the demonstrations and other preliminary steps so that they can be addressed during the team discussion below.</p>	
<p><b>9. Interim Team Discussion</b></p>	
<p>a. Hold an interim planning meeting with the audit team (e.g., RAM, FAO Manager, Supervisor, Auditors, and any offsite staff, if applicable). The purpose of the meeting is to discuss areas of risk</p>	

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<p>identified above and determine how best to address the risk during the performance of the audit. The team should also discuss the development of the plan for selecting items for testing and the period for testing (if not already identified), based on the risk identified during the audit, for use in section C.</p>	
<p>b. Review and discuss relevant sections of the IG Handbook on Fraud Indicators for Contractors. The team should discuss any potential fraud indicators and other risk factors identified during the risk assessment indicating potential fraud, illegal acts, or violations of contracts that could have a material effect on billings on government contracts, and develop audit steps in response. If no risk factors are identified, document this in working paper B.</p>	
<p>c. Determine the need for technical assistance, if any, and document your consideration on working paper B-03.</p>	
<p>d. Document the results of the team discussion (e.g., risk identified, areas to test based on risk, period for testing, what attributes to test for, generally how many invoices to test, how to select items for testing and how to test each area, etc.).</p>	
<p><b>10. Initial Risk Assessment.</b> Tailor the detailed audit program steps and/or develop additional steps to address areas of risk identified above. (Note: The billing system internal control matrix (available on the DCAA Intranet) identifies audit procedures and may assist in the preparation of detailed audit program steps.)</p>	

<b>C-01</b>	<b>Universe of Billings and Selection of Items for Testing</b>	<b>W/P Reference</b>
	<p><b>Version 1.14, dated November 2015</b></p>	
	<p>As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. This section will be performed during each testing phase of the audit.</p>	
	<p>The following steps are intended to identify the specific billings that will be tested in Audit Program sections G through K. The total universe of billings that items for testing will be drawn from should include all billings submitted by the contractor to the Government <u>or to upper-tiered contractors or subcontractors</u> during the period being tested. The billings in the universe should include all forms of contract financing (e.g., cost vouchers, progress payments, etc.) and delivery payments (e.g., DD 250's). However, consideration may be given to effort performed in other assignments (e.g. progress payments 17500, reviewing public vouchers, or the audit procedures performed on labor hour qualifications in 13500 assignments when determining what to include in the universe for testing). Coordination is required with non DOD Government agencies that DCAA supports on a cost</p>	

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reimbursable basis in order to determine if those agencies want to provide funding to participate in the audit.	
1. Review the universe of billings provided by the contractor for the period (Item #7 in the Billing Audit Information Request) and verify the completeness of the universe to the contractor’s accounting records (e.g., by testing the contractor’s reconciliation (Item #8 in the Billing Audit Information Request)).	
2. Compare the CAGE Codes in the billing universe list to the CAGE Codes identified during the preliminary steps. If additional CAGE Codes are identified, determine if additional coordination with the Regional DFAS focal points is needed to identify additional billings rejected by DFAS/other paying offices, demand letters, and/or refunds associated with the additional CAGE Codes (refer to B-01 step 2c).	
3. Summarize the universe of billings using the format on working paper C-02.	
4. Preparation of the plan for selecting items for testing for each testing period.	
a. If the risk assessment identified the need to perform a 100 percent review of certain high risk billings, identify and document the billings and the basis for their selection, and remove them from the universe.	
b. Determine if the universe of billings contains final vouchers for physically complete cost-type contracts. If it does, the final vouchers should be removed from the universe since evaluations of final vouchers are performed under separate assignments as they are submitted for payment. The final vouchers removed from this universe will be used in section A-01, step 1a to test for timely submission of final vouchers.	
c. For the remaining items in the universe, perform the following steps: (1) Prepare a plan for selecting items for testing to be performed in the current period. This plan could be a judgmental selection, sampling or a combination of both depending on the given circumstances (see CAM 4-403g(4) and 4-602). (2) Submit the plan for selecting items for testing (which should include the summary of the universe from working paper C-02) for review and approval to the supervisory auditor, and FAO QM Monitor. (3) Select the items to be tested based on the method or methods defined in your plan (statistical sampling, judgmental selection, etc.) and document the results by bill type, number of bills, and amount billed during the period using working paper C-02.	
5. Review the billings selected for testing and the applicable detailed audit program steps in sections G through K to determine what information is needed to audit the selected items. Prepare and submit a data request to	

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the contractor to obtain any information not available to the auditor.	
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<b>D-01</b>	<b>Reconciliation of Costs Billed on Contracts to the Contractor’s Accounting Records for Physically Completed Contracts (Recorded (Booked) and Billed Cost)</b>	<b>W/P Reference</b>
<b>Version 1.14, dated November 2015</b>		
As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. This section will only be performed during phase 1 of the audit.		
The reconciliation of billed contract costs or hours to the contractor’s accounting records is necessary to determine if amounts billed are based on recorded costs or hours. The risk of excess billings exists on all open contracts billed using costs or hours, including both active contracts and physically complete contracts awaiting closeout. Steps to reconcile billed costs or hours to accounting records on <u>active contracts</u> will be performed in sections G and H of the audit program. The following steps are intended to identify overbillings on <u>physically complete contracts awaiting closeout</u> that are billed based on costs (e.g., cost reimbursable contracts,) or hours (e.g., T&M contracts, labor hour (LH) contracts).		
1.	Review the universe of physically complete contracts awaiting closeout provided by the contractor (Item #10 on Billing Audit Information Request) and verify the completeness of the universe by testing the contractor’s assertions at the walk-through regarding their closeout process and how they prepare their list of completed contracts and ensure its completeness.	
2.	Make a selection of physically complete contracts for purposes of verifying (i) that total amounts billed to date reconcile to amounts recorded in the contractor’s accounting records and (ii) that billing rates used to compute indirect costs are based on appropriate interim billing rates or final negotiated rates if applicable(steps performed below). The basis for the selection (sampling, judgmental selection or other method as appropriate in the circumstances) should be documented in the working papers in accordance with CAM 4-403g(4) or 4-602.9.	
3.	Identify the contractor reconciliations of booked to billed costs for the contracts selected for testing (Item 12 in the Billing Audit Information request).  If the contractor doesn’t perform reconciliations, or if the reconciliations are over 12 months old, request that the contractor prepare reconciliations for the selected contracts and perform steps a and c below. Also determine if a deficiency report should be issued if the contractor does not have compensating controls.	

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<p>a. For each contract selected for testing, confirm total billed amount to a source independent of the contractor records. The total billed amount may be available in FAO perm files, or by contacting the ACO or paying office.</p>	
<p>b. Agree the amount billed on the reconciliations to costs recorded in the contractor’s accounting records.</p>	
<p>c. Perform procedures to identify any overpayments related to indirect rate adjustments that should have been made subsequent to the last billing. For example, obtain the last billing and determine if it is based on acceptable indirect rates, compare it to the amounts on the booked to bill reconciliation and explore any differences.</p>	
<p>4. If significant contract overpayments are noted, do not wait until the completion of the audit to advise the ACO and paying office. Notification to the payment office with a copy to the ACO should be made after coordinating with the supervisor so that they can take action to recover the overpaid amounts. (See Proforma Notification to Payment Office available on the DCAA Intranet.)</p>	
<p>5. If overpayments are identified, determine if the contractor complied with FAR 3-1003(a)(3), if applicable. If the contractor did not comply with the FAR requirement, advise the ACO so that the ACO can determine if action is required to suspend or debar the contractor in accordance with the FAR requirements.</p>	
<p>6. Summarize the results of this section in working paper D.</p>	

<b>E-01</b>	<b>Contract Debts, Demand Letters and Refunds</b>	<b>W/P Reference</b>
<b>Version 1.14, dated November 2015</b>		
As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. This section will only be performed during phase 1 of the audit.		
The following steps are intended to identify contract debts, determine if they were calculated properly and paid by the contractor timely.		
(See section B-01 for a definition and examples of contract debt, demand letters and refunds.)		
<p>1. Review the contractor’s listings of contract debts and related refunds, and outstanding demand letters (Items #15 and #16 in the Billing Audit Information Request). Compare the contractor’s listings to the listings provided by the contracting officer and the paying office (see B-01 steps 2a(2) &amp; (3) and c(2)) to verify to the extent possible that the contractor’s listing is complete.</p>		



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<p>2. Make a selection of significant contract debt items identified for the last 12 months and review to determine the following:</p> <ul style="list-style-type: none"> <li>a. The reason(s) for the contract debt;</li> <li>b. If contract debt amounts were computed correctly.</li> <li>c. If contract debt amounts were processed timely.</li> </ul> <p>The basis for the selection (sampling, judgmental selection or other method as appropriate in the circumstances) should be documented in the working papers in accordance with CAM 4-403g(4) or 4-602.9.</p>	
<p>3. Do not wait until the completion of the audit to advise the ACO and paying office of any outstanding contract debts over 30 days old where a refund has not been processed. Notification to the payment office with a copy to the ACO should be made after coordinating with the supervisor so that appropriate action can be taken. (See Proforma Notification to Payment Office available on the DCAA Intranet.)</p>	
<p>4. Summarize the results of this section in working paper E.</p>	

<b>F-01</b>	<b>Prime Contractor Monitoring of Subcontracts</b>	<b>W/P Reference</b>
<b>Version 1.14, dated November 2015</b>		
As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. This section will only be performed during phase 1 of the audit.		
As required by FAR 42.202(e)(2), the prime contractor is responsible for managing its subcontracts. A critical part of subcontract management is the payment of subcontractor billings, which the prime contractor includes in billings to the Government. The steps in this section should be performed using the universe of subcontracts and subcontractor billings for the past year.		
1. Review the subcontract information provided by the contractor for the period and verify the completeness of the subcontract universe (e.g., by testing the contractor’s reconciliation (Item #20 in the Billing Audit Information Request)).		
2. Make a selection of billings on high risk subcontracts for detailed review.		
a. Identify high risk subcontracts. Usually, subcontracts reimbursed using interim financing (e.g., cost reimbursable, T&M, FFP with billings based on cost) have a higher risk than subcontracts reimbursed based on performance, or upon completion of services or delivery of goods.		
b. Using the list of subcontractor billings provided by the contractor,		

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<p>identify the billings for each high risk subcontract identified in item a. above and select billings for testing. The selection may be based on sampling, judgmental selection or other method as appropriate in the circumstances. The process for selecting items for testing must be documented in the working papers in accordance with CAM 4-403g(4) or 4-602.9.).</p>	
<p>3. For each subcontractor for which billings were selected for testing, determine if the prime contractor performed procedures to determine if the subcontractor’s accounting and billing systems were adequate prior to providing the subcontractor interim financing. Perform steps in 6 below if the subcontractor did not allow the prime contractor access to its systems and /or accounting data.</p>	
<p>4. For each subcontractor for which billings were selected for testing, determine if the prime contractor monitored the adequacy of the subcontractor’s accounting and billing systems during the subcontract performance. Perform steps in 6 below if the subcontractor did not allow the prime contractor access to its systems and /or accounting data.</p>	
<p>5. Review the subcontractor billings selected for testing and supporting files and determine if the contractor performed an adequate review of the subcontractor billings prior to making payment (e.g., review of costs, billing rates, compliance with subcontract terms, etc.).</p>	
<p>6. Identify subcontracts for the selected subcontractor billings where the contractor states the subcontractor denied access to accounting data.</p>	
<p>a. Obtain and review the correspondence from the subcontractor to the contractor to determine what information the subcontractor would not provide to the contractor.</p>	
<p>b. For contractors that were denied access to partial information (e.g., rates), determine if the contractor reviewed the information to which they had access.</p>	
<p>c. Determine if the contractor requested ACO assistance for the review of subcontract areas to which they were denied access.</p>	
<p>7. Summarize the results of this section in working paper F.</p>	

<p><b>G-01</b></p>	<p><b>Review of Vouchers on Cost Type Contracts</b></p>	<p><b>W/P Reference</b></p>
<p><b>Version 1.14, dated November 2015</b></p>		
<p>As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. This section will be performed during all audit phases if this billing type is identified for review during the risk assessment or during the process of selecting items for testing. However, if</p>		

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<p>you determine that you can rely on the contractor’s brief based on testing in the first phase (i.e., no errors are found on the tested briefs), in any subsequent phases, step 1 below can be limited to obtaining for our perm files any modifications issued since the last testing period and ensuring that you have an updated contract brief reflecting those modifications.</p>	
<p>The steps in this section are performed to determine if each bill selected for testing was acceptable for payment, to identify overbillings/overpayments, and to determine if the contractor complied with the provisions of FAR if overpayments occurred. It also includes steps to test the contractor’s contract briefs.</p>	
<p>1. Contract Briefs. The purpose of this step is to determine if the contractor’s billing personnel have contract information that is current, accurate and complete as needed to prepare billings that are acceptable for payment. The auditor will also use the information to verify that the billings selected for review are acceptable for payment (step 2 below). For each cost-type contract related to the contractor billings selected for testing:</p>	
<p>a. Review the FAO permanent file and EDA to obtain the contract and all modifications. Contact the Contract Administrator/ACO/PCO to determine if the complete contract through the latest modification has been obtained. Request copies of missing documents from the ACO/PCO or contractor.</p>	
<p>b. Obtain the contractor’s contract brief and compare it to information in the contract/modifications to verify that the brief includes current, accurate, and complete contract terms/information needed for an acceptable bill (e.g., period of performance, ceiling limitations, other/special provisions, funding limitations, cost sharing provisions, undefinitized contract provisions, provisions for fee calculations, fixed fee percentages, and billing instructions). In addition, if the applicable information is not included on the contractor’s brief, document the contract information to use in completing step 2 below. In some cases, it may be more efficient to review the contract/modifications and document the relevant items first, then compare the auditor’s documentation to the contractor’s brief.</p>	
<p>2. Determine if the bill was acceptable for payment by reviewing the billing for the applicable attributes listed in 2.a – q below:</p>	
<p>a. Was the billing mathematically correct?</p>	
<p>b. Did the billing contain a current and cumulative billed amount? The bill should be complete to include the SF 1035 or equivalent information.</p>	
<p>c. Indirect Rates – Current Year. Were the current costs billed using appropriate billing rates?</p>	
<p>d. Indirect Rates – Prior Year. If this bill contains cost from the prior</p>	

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<p>year, were the rates adjusted to reflect the most current available year-end rates; i.e., the most current of the following: year-end actuals, rates per the incurred submission, or final negotiated rates? The contractor’s system should segregate costs and rates by year so that the rate adjustment can be verified (see CAM 5-1107.5a).</p>	
<p>e. Billed to Booked. Did the current and cumulative costs billed reconcile to the cost booked in the accounting records? The contractor should prepare a reconciliation for each billing prior to submission to the Government. Request that the contractor walk through the reconciliation for each selected voucher if the billed costs do not readily reconcile to the costs booked.</p>	
<p>f. Timely Payment of Cost Billed (Billed to Paid). Does the contractor have procedures to ensure compliance with FAR 52.216-7(b)(1)(ii)(A)? Auditors will need to verify 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. The contractor’s aging of accounts payable may be a key part of its procedures. To test the effectiveness of the contractor’s procedures, trace selected significant current costs on vouchers (e.g., material, subcontract, or ODC, etc) to cancelled checks or other evidence that identifies the date that the payment was made, or is planned to be made and the risk that contractor will not make the payment in the normal course of business is low. If the contractor is delinquent on payment, discuss with the contractor and require the contractor explain the circumstances. The contractor should be required to submit adjustment vouchers to deduct significant costs not paid from current billings. If the contractor does not submit adjustment vouchers, the auditor should issue a DCAA Form 1 in accordance with CAM 6-900 to suspend the costs and recover the overpayment.</p>	
<p>g. Review of Vouchers for Unusual Items. If the voucher contains unusual charges that warrant additional review, were the charges adequately supported/explained?</p>	
<p>(1) Perform a cursory review of the cost elements under each billing selected for testing (1034 and supporting 1035, or equivalent) to identify any items that warrant additional review (e.g., credits, unusual charges, etc.). If none are identified, document/summarize the results and skip steps g(2) and g(3) below.</p>	
<p>(2) For any unusual charges identified for additional review, request and review information from the contractor to determine if the charges are appropriate. Depending on the significance/sensitivity of the item, this may include inquiries of contractor personnel</p>	

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and/or examining source documents supporting line items, etc., keeping in mind that evidence from source documents is more reliable than testimonial evidence from contractor personnel. Document/summarize the results.	
(3) If the charges are not adequately supported or found to be unallowable, determine if a Form 1 should be issued to disallow or suspend costs for payment.	
h. Were the billed costs incurred within the contract period of performance?	
i. Ceiling Limitations. Did the bill properly exclude costs in excess of specific contract ceilings (e.g., ceilings on indirect rates, specific elements, contract line items, etc.)? Note – if the contract includes provisions for ceiling rates the contractor cannot bill above contractual ceiling rates even if there are other approved rates (e.g., final, provisional, etc.).	
j. Other/Special Provisions. Did the bill properly exclude other costs the contract states the contractor cannot bill (e.g., overtime premium, cost ceilings/timeframes for pre-contract costs, costs incurred after completion or delivery date, costs incurred in excess of contract amount, costs not supported by ACO or other documentation that services were received prior to billing, etc.)?	
k. Funding Limitations. Did the bill properly exclude costs in excess of funding limitation amounts in the contract?	
l. Cost Sharing. If this is a cost-sharing contract, did the bill exclude the contractor share amount as required by and determined in accordance with the terms of the cost sharing arrangement?	
m. If this was an undefinitized contract or delivery order containing FAR clause 52.216-26, did the bill include appropriate limitations on billed costs?	
n. Was the billed fee calculated in accordance with contract terms?	
o. If the contract contained the fixed or incentive fee clause (FAR 52.216-8, FAR 52.216-9 or 52.216-10), and if required was the fee withheld after payment of 85 percent of contract fixed or incentive fee until a reserve was set aside in accordance with contract terms? (Note: This clause was revised in 2011, effective for contracts awarded on or after June 30, 2011. The earlier clause gave the CO discretion in whether to withhold fee. The revised clause requires the withhold. Therefore, auditors should determine what version of clause is included in the subject contract and apply accordingly.)	
p. Did the billed cost include appropriate adjustments (e.g., Form 1's, withholds, etc.)?	

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<p>q. Was the bill submitted in accordance with the contract specific billing instructions (e.g., not billed more frequently than specified in the instructions, billed on the proper form, etc.)?</p>	
<p>3. Billed to Received. Did the amount received (amount paid to the contractor) exceed the amount billed by the contractor? If so, did the contractor promptly pay back the overpaid amount (FAR 3.1003)? Report any unresolved contractor overpayments to the ACO and paying office immediately.</p>	
<p>4. Summarize the results of this section in working paper G.</p>	

<b>H-01</b>	<b>Review of Vouchers on Time and Material (T&amp;M) or Labor Hour (LH) Contracts</b>	<b>W/P Reference</b>
<b>Version 1.14, dated November 2015</b>		
<p>As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. This section will be performed during all audit phases if this billing type is identified for review during the risk assessment or during the process of selecting items for testing.</p>		
<p>The steps in this section are performed to determine if each bill selected for testing was acceptable for payment, to identify overbillings/overpayments, and to determine if the contractor complied with the provisions of FAR if overpayments occurred.</p>		
<p>Time and material contracts (FAR 16.601) provide for payment based on (1) direct labor hours paid at specified fixed hourly labor rates; and (2) materials paid at actual cost. Material handling costs may be included, if appropriate. These contracts must include a ceiling price. Labor hour contracts are similar to time and material contracts except materials are not supplied by the contractor. The price is based on specified fixed labor hour rates.</p>		
<p>1. Contract Briefs. The purpose of this step is to determine if the contractor’s billing personnel have contract information that is current, accurate and complete as needed to prepare billings that are acceptable for payment. The auditor will also use the information to verify that the billings selected for testing are acceptable for payment (step 2 below). For each T&amp;M and LH contract related to the contractor billings selected for testing:</p>		
<p>a. Review the FAO permanent file and EDA to obtain the contract and all modifications. Contact the Contract Administrator/ ACO/PCO to determine if the complete contract through the latest modification has been obtained. Request copies of missing documents from the ACO/PCO or contractor.</p>		
<p>b. Obtain the contractor’s contract brief and compare it to information in</p>		

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<p>the contract/modifications to verify that the brief includes current, accurate, and complete contract terms/information needed for an acceptable bill (e.g., period of performance, ceiling limitations, other/special provisions, funding limitations, and billing Instructions). In addition, if the applicable information is not included on the contractor’s brief, document the contract information to use in completing step 2 below. In some cases, it may be more efficient to review the contract/modifications and document the relevant items first, then compare the auditor’s documentation to the contractor’s brief.</p>	
<p>2. Determine if the bill was acceptable for payment by reviewing the billing for the applicable attributes listed 2a - o below:</p>	
<p>a. Was the billing mathematically correct? Verify the total labor hours by category multiplied by the contractual hourly billing rate equals the total labor amounts billed by category.</p>	
<p>b. Did voucher contain a current and cumulative billed amount? The bill should be complete to include the SF 1035 or equivalent information.</p>	
<p>c. Rates – Did the contractor prepare the bill using the correct rates in accordance with contract terms?</p>	
<p>d. Billed to Booked. Did the current and cumulative billed labor hours reconcile to the hours in the accounting records? Compare hours incurred by labor category on the bill to the contractor’s accounting records. Billed labor hours should be supported by labor distributions and timekeeping records. If the bill contains other than labor costs those cost should be reconciled to the contractor’s accounting records.</p>	
<p>e. Timely Payment of Cost Billed. Were costs of supplies/services purchased directly for the contract paid for timely; i.e., ordinarily within 30 days of the contractor’s payment request to the Government (FAR 52.216-7(b)(1)(ii))? This would be tested by tracing selected current costs on the voucher (e.g., material, subcontract, or ODC, etc) to cancelled checks or other evidence that identifies the date the payment was made.</p>	
<p>f. Review of Vouchers for Unusual Items. If the voucher contains unusual charges that warrant additional review, were significant costs and unusual items selected for additional review adequately supported/explained?</p>	
<p>(1) Perform a cursory review of the cost elements under each billing selected for testing (1034 and supporting 1035) to identify any items that warrant additional review (e.g., credits, unusual charges, etc.). If none are identified, document/summarize the results and skip steps f(2) and f(3) below.</p>	

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<p>(2) For any unusual charges identified for additional review, request and review information from the contractor to determine if the charges are appropriate. Depending on the significance/sensitivity of the item, this may include inquiries of contractor personnel and/or examining source documents supporting line items, etc. keeping in mind that evidence from source documents is more reliable than testimonial evidence from contractor personnel. Document/summarize the results.</p>	
<p>(3) If the charges are not adequately supported or found to be unallowable, determine if a Form 1 should be issued to disallow or suspend costs for payment.</p>	
<p>g. Were the billed costs incurred within the contract period of performance?</p>	
<p>h. If the system demonstrations did not identify high risk for this area, compare selected labor qualifications by labor category for the employee hours billed to those specified in the contract. Did employee hours billed meet the labor qualification requirements in the contract as prescribed by FAR 52.232-7(a)(3), Payments Under Time-and-Materials and Labor-Hour Contracts? If high risk in this area was identified during the system demonstrations, consider comparing labor qualifications for all categories on all billings selected for testing, or performing these procedures under the labor (13500) assignment. Also, discuss with your supervisor reporting a deficiency if you believe there is sufficient evidence that the contractor has inadequate procedures to monitor labor qualification requirements.</p>	
<p>i. Ceiling Limitations. Did the bill properly exclude costs in excess of specific contract ceilings? Were cumulative cost billed within the contract ceiling?</p>	
<p>j. Other/Special Provisions. Did the bill properly exclude other costs the contract states the contractor cannot bill? Verify any other direct cost billed has been authorized by contract terms.</p>	
<p>k. Funding limitations. Did the bill properly exclude costs in excess of funding limitation amounts in the contract?</p>	
<p>l. If the contracting officer has issued the modification discussed in FAR 52.232-7(a)(7), were billable labor costs reduced appropriately (generally by 5% until a maximum amount of \$50,000 has been withheld)?</p>	
<p>m. Did the billed cost include appropriate adjustments (e.g., Form 1's, withholds, etc.)?</p>	
<p>n. Was the bill submitted in accordance with the contract specific billing instructions (e.g., not billed more frequently than specified in the</p>	



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instructions, billed on the proper form, etc.)?	
o. If the billing includes subcontract costs, were they billed at cost or separate rates in accordance with contract terms (FAR 52.232-7)?	
3. Billed to Received. Did the amount received (amount paid to the contractor) exceed the amount billed by the contractor? If so, did the contractor promptly pay back the overpaid amount (FAR 3.1003)? Report any unresolved contractor overpayments to the ACO and paying office immediately.	
4. Summarize the results of this section in working paper H.	

<b>I-01</b>	<b>Progress Billings Based on Cost</b>	<b>W/P Reference</b>
<b>Version 1.14, dated November 2015</b>		
As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. This section will be performed during each audit phase if this billing type is identified for review during the risk assessment or during the process of selecting items for testing process.		
The steps in this section are performed to determine if each bill selected for testing was acceptable for payment, to identify overbillings/overpayments, and to determine if the contractor complied with the provisions of FAR if overpayments occurred.		
Contractors submit SF-1443, Requests for Progress Payments, to receive interim financing for a percentage (stated in the contract) of allowable costs incurred for undelivered and uninvoiced items. The amount of financing is also subject to other limitations specified in the progress payment clause. As contract items are delivered and accepted, progress payment amounts are reduced (liquidated) against payments due for completed items using the liquidation method stated in the contract.		
Separate 17500 progress billing assignments should be set up to examine the progress billings selected for testing in section C-01. If two or more progress payments related to one contract were selected, they may be combined into one 17500 assignment.		
The 17500 audit program should be tailored for the billings being audited. Auditors will need to document the risk considerations to support the tailoring of the 17500 audit program, but should rely on and refer to the risk assessment documented in the billing audit to the extent possible.		
If the progress billing assignments result in any significant deficiencies/material weaknesses a deficiency report should be issued.		
Since these separate progress billing audits are performed on billings that have already been paid, a separate 17500 report will generally not be issued.		

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The 17500 assignment should generally be closed with an MFR documenting the results, noting that the audit was performed as part of the billing audit and referencing that assignment number and any deficiency reports issued based on the results of the progress billing assignment.	
The results of the separate progress billing assignment(s) should be carried forward to the MFR for this billing audit. If the separate progress billing assignment(s) are not completed by the end of this assignment, auditors should document in the final MFR that the results will be incorporated in the audit of the contractor’s accounting system and overall compliance with the system criteria in DFARS 252.242-7006.	
If the separate progress payment assignments are not completed when the report on the overall accounting system is issued, the accounting system report should appropriately qualified.	
1. Identify the progress payment(s) selected for testing and reference the separate 17500 progress billing assignment.	

<b>J-01</b>	<b>DD250 Delivery Orders or WAWF Receiving Reports (RR)</b>	<b>W/P Reference</b>
<b>Version 1.14, dated November 2015</b>		
As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. This section will be performed during all audit phases if this billing type is identified for review during the risk assessment or during the process of selecting items for testing.		
<p>The steps performed under this section are performed to determine whether the bill was acceptable for payment, to identify overbillings/overpayments, and to determine if the contractor complied with the provisions of FAR regarding overpayments.</p> <p>DD250s or WAWF RR are submitted by contractors at the time of delivery to document the inspection/acceptance, receipt (as necessary), and delivery/shipment date of supplies and services.</p>		
1. Contract Briefs. The purpose of this step is to determine if the contractor’s billing personnel have contract information that is current, accurate and complete as needed to prepare billings that are acceptable for payment. The auditor will also use the information to verify that the billings selected for review are acceptable for payment (step 2 below). For each contract related to the contractor billings selected for testing:		
a. Review the FAO permanent file and EDA to obtain the contract and all modifications. Contact the Contract Administrator/ACO/PCO to determine if the complete contract through the latest modification has been obtained. Request copies of missing documents from the ACO/PCO or contractor.		

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<p>b. Obtain the contractor’s contract brief and compare it to information in the contract/modifications to verify that the brief includes current, accurate, and complete contract terms/information needed for an acceptable bill (e.g. proper liquidation rates, and billing instructions). In addition, if the applicable information is not included on the contractor’s brief, document the contact information to use in completing step 2 below. In some cases, it may be more efficient to review the contract/modifications and document the relevant items first, then compare the auditor’s documentation to the contractor’s brief.</p>	
<p>2. Determine if the bill was acceptable for payment by reviewing the billing for the applicable attributes listed 2.a - e below:</p>	
<p>a. Was the DD250 or WAWF RR mathematically correct with accurate totals?</p>	
<p>b. Does the DD250 or WAWF RR reflect the correct contract price? Verify the price per the contract/modification to the billing.</p>	
<p>c. Did the contractor have the required documentation to bill the DD250 or WAWF RR (i.e. certification from the Quality Assurance Representative (QAR) that the deliverable was acceptable? Review the certificate or determine if Government Inspector signed off in WAWF).</p>	
<p>d. Liquidation Amount. Was the DD250 or WAWF RR properly adjusted (liquidated) to reduce the invoice amount for previously paid delivery orders in calculating the net invoice amount? (If contract has Performance Based Payments clause refer to contract terms and FAR 52.232-32(d). If contract has Progress Payments clause refer to contract terms and FAR 52.232-16(b)).</p>	
<p>e. Was the DD250 or WAWF RR submitted in accordance with the contract specific billing instructions?</p>	
<p>3. Billed to Received. Did the amount received (amount paid to the contractor) exceed the amount billed (by the contractor)? If so, did the contractor promptly pay back the overpaid amount (FAR 3.1003)? Report any unresolved contractor overpayments to the ACO and paying office immediately.</p>	
<p>4. Summarize the results of this section in working paper J.</p>	

<b>K-01</b>	<b>Performance-Based Payments</b>	<b>W/P Reference</b>
<b>Version 1.14, dated November 2015</b>		

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<p>As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. This section will be performed during each audit phase if this billing type is identified for review during the risk assessment or during the process of selecting items for testing.</p>	
<p>The steps in this section are performed to determine if each bill selected for testing was acceptable for payment, to identify overbillings/overpayments, and to determine if the contractor complied with the provisions of FAR if overpayments occurred.</p>	
<p>Contracts financed through performance based payments (PBPs) allow program managers to make payments on fixed price contracts based on actual work accomplished. Performance-based payments are based on the achievement of specific events or accomplishments (billing milestones) rather than being tied to and based on the incurred cost of performance. PBPs can be on either a whole contract or on a deliverable item basis unless otherwise prescribed by agency regulation.</p>	
<p>1. Contract Briefs. The purpose of this step is to determine if the contractor’s billing personnel have contract information that is current, accurate and complete as needed to prepare billings that are acceptable for payment. The auditor will also use the information to verify that the billings selected for testing are acceptable for payment (step 2 below). For each contract related to the contractor billings selected for testing:</p>	
<p>a. Review the FAO permanent file and EDA to obtain the contract and all modifications. Contact the Contract Administrator/ACO/PCO to determine if the complete contract through the latest modification has been obtained. Request copies of missing documents from the ACO/PCO or contractor.</p>	
<p>b. Obtain the contractor’s contract brief and compare it to information in the contract/modifications to verify that the brief includes current, accurate, and complete contract terms/information needed for an acceptable bill (e.g., milestone requirements, other/special provisions, information regarding proper liquidation, and billing instructions). In addition, if the applicable information is not included on the contractor’s brief, document the contact information to use in completing step 2 below. In some cases, it may be more efficient to review the contract/modifications and document the relevant items first, then compare the auditor’s documentation to the contractor’s brief.</p>	
<p>2. Determine if the bill was acceptable for payment by reviewing the billing for the applicable attributes in 2a – d below:</p>	
<p>a. Was the PBP mathematically correct with accurate totals?</p>	
<p>b. Were the total PBPs less than 90 percent of the contract price if on a whole contract basis, or 90 percent of the delivery item price if on a delivery item basis? (See FAR 32.1004(b)(2).)</p>	

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c. Review Billing Milestone. Was the milestone(s) billed in accordance with the contract?	
(1) Did the milestone event or accomplishment occur and was it measured/documentated in accordance with the terms of the contract?	
(2) Did the billing amount agree with the event value in the contract?	
d. Was the bill submitted in accordance with the contract specific billing instructions?	
3. Billed to Received. Did the amount received (amount paid to the contractor) exceed the amount billed by the contractor? If so, did the contractor promptly pay back the overpaid amount (FAR 3.1003)? Report any unresolved contractor overpayments to the ACO and paying office immediately.	
4. Summarize the results of this section in working paper K.	

<b>A-01</b>	<b>Concluding Steps</b>	<b>W/P Reference</b>
<b>Version 1.14, dated November 2015</b>		
As noted on B-01, item 2 under Planning Considerations, this audit may be performed in one or more phases. All steps in this section should be performed at the conclusion of each phase with the exception of step 2b, which will only be performed after the conclusion of all phases.		
<b>1. Additional Audit Procedures</b>		
a. Submission of Final Vouchers. Audit program section C-01 step 4b required the identification and removal of final vouchers for physically complete cost-type contracts from the universe of billings prior to the selection of billings for testing. If final vouchers were identified during that step, review a selection of those vouchers (based on sampling, judgmental selection or other method as appropriate in the circumstances) to determine if the contractor submits final vouchers within 120 days (or longer if approved in writing by the Contracting Officer) after settlement of the final annual indirect cost rates for all years of a physically complete contract in compliance with FAR 52.216-7(d)(5).		
b. Summarize the results of the additional audit procedures.		
<b>2. Summary of Testing (Audit Phase)</b>		
a. Interim Results (by phase). (This step should be performed as each phase is completed.) Finish summarizing the audit results. Document any significant deficiencies and material weaknesses that		

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<p>were identified during testing, even those reported in deficiency reports issued on a real time basis under a separate assignment number during the course of the audit. Significant deficiencies/material weaknesses identified in this audit would result in noncompliance with DFARS 252.242-7006(c)(15)(i) and/or (16).</p>	
<p>(1) Submit working papers for management review (at the end of each phase).</p>	
<p>(2) If there are significant deficiencies for which a deficiency report has not already been issued (i.e., under a separate deficiency report assignment number on a real-time basis while this audit was in-process), draft a deficiency report at the completion of this audit under this assignment number. Obtain supervisory review.</p>	
<p>(3) If there are deficiencies that are less severe than material weaknesses but warrant the attention of those charged with governance, issue a memorandum to the contracting officer. Obtain supervisory review.</p>	
<p>b. At the end of the 12-month testing period (consisting of one or more phases), a summary memorandum should be prepared to include the results of all phases, for incorporation into the audit of the contractor’s accounting system and overall compliance with the DFARS 252.242-7006 criteria (11070).</p>	
<p><b>3. Other Concluding Steps</b></p>	
<p>a. The auditor should ensure that the ACO and paying office have been notified of any unresolved overpayments, contract debts, demand letters, and subcontract billings that are over 30 days old; and of any improper offsets. The pro forma notification to the payment office should be addressed to the paying office and if the paying office is DFAS, sent to the DCAA DFAS Financial Liaison Advisor to be hand delivered/emailed to DFAS. A copy should also be provided to the ACO and the Regional Focal Point. If adjustments to billed contract costs are necessary, DCAA Forms 1 should be processed.</p>	
<p>b. After obtaining DCAA management approval, conduct an exit conference with the contractor in accordance with CAM 4-304 after each audit phase.</p>	
<p>c. Auditors should document and communicate with the contracting officers upon the completion of our audit to make them aware of any deficiencies or issues identified during the audit.</p>	
<p>d. Coordinate with supervisor to verify the accuracy of CAGE codes in the DMIS contractor tables by comparing the CAGE codes in DMIS with the CAGE codes on the billing universe reports. For</p>	

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any codes not already in DMIS, provide the information to the supervisor to add to DMIS.	
e. Update the permanent file in accordance with CAM 4-405.b.	