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Activity Code 11015		Annual Testing of Contractor Eligibility for Direct Bill Program
Version 7.3, dated June 2012		
B-1	Planning Considerations	
Purpose and Scope		
<ol style="list-style-type: none"> 1. The purpose of this assignment is to determine whether continued reliance can be placed on the contractor’s internal controls for direct billing purposes (CAM 6-1007.6). 2. If a billing system internal control examination is programmed for the current fiscal year, do not perform this assignment. The contractor’s voucher preparation procedures and a determination of the contractor’s eligibility to remain on direct billing will be evaluated and documented as part of the billing system internal control examination. 3. The testing should be based on a review of selected paid vouchers submitted directly to Government paying offices. Additionally, this assignment includes procedures to ensure that the contractor is current in its submission of incurred cost proposals (FAR 52.216-7(d)(2)) and final vouchers (FAR 52.216-7(d)(5)). The program steps are intended as general guidance and should be tailored as determined by audit risk. 		
<u>References</u>		
<ol style="list-style-type: none"> 1. CAM 5-1100, Audit of Billing System Internal Controls 2. CAM 6-1000, Responsibilities for Processing and Approval of Interim and Completion Cost-Reimbursement Vouchers 3. CAM 6-1007, Direct Submission of Interim Public Vouchers to Disbursing Offices (Direct Billing) 4. FAR 42.704, Billing Rates 		

B-1	Preliminary Steps	WP Reference
Version 7.3, dated June 2012		
1.	Research and Planning	
	<ol style="list-style-type: none"> a. Review the open MRD’s for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for “MRDs, AGMs, & AMGMs” 	

Master Document – Master Document

<p>b. Examine the FAO permanent files including prior audits of the contractor’s billing system. Review the internal control audit planning summary (ICAPS) for major contractors or the accounting system and system of internal controls (ICQ) for nonmajor contractors, audit leads, MAARs Control Log and prior relevant audits to identify areas of high risk.</p>	
<p>2. Entrance Conference and Preparation</p>	
<p>a. Arrange and conduct an entrance conference with particular emphasis on requesting the contractor to provide a list of all public vouchers submitted directly to Government paying offices within the last 12 months.</p>	
<p>b. Select a sufficient number of vouchers (based on the risk assessment) from the above list of public vouchers to perform the audit steps contained in section C, Testing of Paid Vouchers, to provide reasonable assurance that the contractor’s procedures continue to be adequate. The contractor should provide complete public vouchers including the SF 1035 or equivalent information.</p>	
<p>c. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>3. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.</p>	
<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>5. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.</p>	
<p>6. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other</p>	

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<p>noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team’s understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See “Principal Sources of Fraud Indicators” below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc. • CAM Figure 4-7-3. <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
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C-1	Testing of Paid Vouchers	WP Reference
	Version 7.3, dated June 2012	
	1. Determine if the vouchers are mathematically correct and error free. All columns should have accurate totals showing the computation of the billed quantities and unit prices.	
	2. Verify that the public vouchers contain current and cumulative billed amounts. The contractor should have procedures to compute the	

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<p>cumulative amounts booked and billed, as shown on the SF 1035 (continuation sheet) or an attachment to an electronically submitted voucher. Reconcile costs billed to costs booked for the billing period under review.</p>	
<p>3. Verify that the contractor is not delinquent in the payment of cost incurred in the performance of the contract, ordinarily within 30 days of the contractor’s payment request to the Government. As appropriate, review the contractor’s aging of accounts payable schedule or trace selected amounts from voucher(s) to cancelled checks or other evidence of payment. If the contractor is delinquent in paying accrued costs in the ordinary course of business, the costs are not reimbursable in accordance with FAR 52.216-7. If the contractor does not agree to submit an adjustment voucher to deduct the cost not paid from current billings, the auditor should issue a DCAA Form 1 in accordance with CAM 6-900 to suspend the cost and recover the overpayment.</p>	
<p>4. Determine if the vouchers are prepared using ACO or DCAA approved provisional billing rates, or if lower, contract rate ceilings or dollar limitations. Ensure that the billing rates have been adjusted to reflect interim, actual year-end allowable and final rates, as applicable.</p>	
<p>5. Determine if the billings are based on current contract provisions.</p>	
<p>a. Verify that the contractor billings are in compliance with contract terms/provisions, e.g., contract modifications, contract ceilings, withholding requirements, limitation on overtime. The total amount billed should not exceed any contract, work order, funding limitation, or any other contract ceiling amount.</p>	
<p>b. For Time-and-Material or Labor-Hour contracts selectively verify labor billed at contract rates, employee qualifications, and subcontracts billed at cost or separate rates in accordance with contract terms.</p>	
<p>6. Compare amounts received to amounts billed for each invoice, and when the amounts differ, determine if appropriate notifications were made to the paying office.</p>	
<p>a. If amounts received are greater than amounts billed, the difference should be refunded to the paying office or offset against a subsequent billing on the same contract within 30 days.</p>	
<p>b. If the contractor determines that an offset, instead of a refund, is appropriate, the buying office or the paying office, normally DFAS, should be notified. The offset must be properly authorized, and the authorization must be documented by the paying office.</p>	
<p>c. Immediately notify the paying office, via memorandum, if a</p>	

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<p>significant contractor overpayment is found (\$50 thousand on a single issue or on an individual contract), and (1) the contractor has not notified the Government, and (2) the overpayment is over 30 days old and has not been returned. Use the “Proforma Notification to Payment Office” memo located on the DCAA intranet under “Other Audit Guidance” (OAG) under Code 17310.</p>	
<p>d. If the amounts received are less than amounts billed, the differences should be coordinated with the contracting officer, the contract administration office, or the paying office, as applicable, to resolve the differences.</p>	
<p>7. If public vouchers tested include subcontract payments, verify that the contractor is monitoring subcontractor billings, including:</p>	
<p>a. Ensuring subcontractor billing rates are updated timely to reflect year-end actual allowable rates, as appropriate;</p>	
<p>b. Ensuring subcontractors are periodically performing comparisons between billed and paid amounts on the subcontract and notifying the prime contractor accordingly;</p>	
<p>c. Resolving any subcontractor overpayments timely; and</p>	
<p>d. Requesting assistance from cognizant DCAA offices, as applicable, for major subcontractor amounts included in selected vouchers.</p>	
<p>8. Verify that the contractor is current on its submission of incurred cost proposals in accordance with contract terms. (FAR 52.216-7(d)(2)).</p>	
<p>9. Verify that the contractor submits final vouchers for physically complete cost-type contracts 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).</p>	

A-1	Concluding Steps	WP Reference
	Version 7.3, dated June 2012	
	1. Summarize the results of testing.	
	2. Discuss the results with the supervisor.	
	3. Conduct an exit conference with the contractor in accordance with CAM 4-304.	
	4. If the testing of paid vouchers indicates that continued reliance can be placed on the contractor’s procedures for the preparation of interim vouchers and the contractor is current in submitting its incurred cost	

Master Document – Master Document

<p>submissions and final vouchers, the auditor should draft a memorandum for record documenting the FAO’s decision to allow the contractor’s continued participation in the direct billing program. However, if deficiencies are found, the FAO should follow the audit guidance contained in CAM 6-1007.7 for rescinding the contractor’s authority to direct bill and a flash deficiency report should be issued.</p>	
<p>5. Ensure that the paying office and contracting officer have been notified of any unresolved overpayments, contract administration adjustments, demand letters, and subcontract billings that are over 30 days old; and of any improper offsets. The Proforma Notification to Payment Office memorandum (see OAG under Code 17310) 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/e-mailed to DFAS. A copy should also be provided to the ACO and the regional Task Force member.</p>	
<p>6. Update the permanent files, e.g., ICAPS or ICQ.</p>	
<p>7. Coordinate with the supervisory auditor to verify DMIS accuracy. In the contractor tables in DMIS, verify the accuracy of entries for:</p>	
<ul style="list-style-type: none"> • Direct billing initiative code. 	
<ul style="list-style-type: none"> • CAGE code(s) – Ensure all current, applicable CAGE codes are included in the DMIS contractor table. 	
<p>8. NOTE: The standard closing actions are found at the Administrative tab 16a and include references to audit reports and memorandum. However, an audit report should not be issued under this assignment number, as the testing performed does not constitute an examination.</p>	