

Master Document – Audit Program

Activity Code 15600		Limitation of Payments
Version 3.3, dated June 2012		
B-1	Planning Considerations	
Purpose and Scope		
<p>The purpose of this audit is to verify the accuracy of the contractor's QLOP statement, if required by a FAR 52.216-5, 52-216-6, 52.216-16, or 52.216-17 clause to the contract, to ensure that billing prices during contract performance are within a reasonable range of the expected final prices or estimates at completion (EACs). Identification of overpayments and other required adjustments may also be accomplished. This audit should determine whether the contractor is consistently using the most current cost at completion estimate for both progress payments and QLOP statements. Inconsistencies between the documents may indicate that the contractor is seeking overpayments. Moreover, the auditor should be alert for defective pricing leads.</p>		
<p>FAR QLOP provisions incorporated in fixed-price-incentive (FPI) contracts and fixed-price-redeterminable (FPR) contracts; limit payments for supplies and/or services delivered to (i) final established prices (FFP portion of a FPI/FPR contract), (ii) estimated costs where final prices have not been established (FPI/FPR), and (iii) proportional share of profit on the estimated costs where final prices have not been established (FPI/FPR). The QLOP statement is the means and reporting vehicle for these FAR provisions.</p>		
<p>The scope of the QLOP statement audit depends on the reliance placed on the contractor's accounting system, internal controls, cost representations, and billing procedures (as documented in related Internal Control Audit Planning Summaries, or ICQ for FYs 1994 and prior). If the results of prior QLOP statement audits and billing system audits indicate low risk, a limited audit of the contractor's submittal may be appropriate. However, if inconsistencies are observed, a detailed audit of the EAC may be required. This audit program does not replace audit judgment and may be supplemented to satisfy the needs of the particular assignment.</p>		
References		
<ol style="list-style-type: none"> 1. Standard Audit Program for Progress Payments Based on Cost Incurred (APPAYCOS) 2. Audit Program for Flexible Progress Payment Proposals (APPAYFLX) 3. Audit Program Payments Based on Percentage or Stage of Completion (APPAYPCT) 		

Master Document – Audit Program

4. FAR QLOP Clauses:
a. Price Redetermination--Prospective
b. Price Redetermination-- Retroactive
c. Incentive Price Revision--Firm Target
d. Incentive Price Revision--Successive Targets
5. CAM 14-200, Audit of Progress Payments
6. CAM 11-100, Audit of Contractor Compliance with “Limitation of Cost,” “Limitation of Funds,” and “Limitation on Payments” Clauses

B-1	Preliminary Steps	
	Version 3.2, dated May 2007	WP Reference
1.	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”	
2.	Evaluate the contract file to determine:	
	a. Whether the provision for QLOP statements is in the contract price revision or redetermination clause as applicable,	
	b. The cost sharing formula, target cost, target profit, target price, and ceiling price for the price revision type contracts,	
	c. Requirements for financial reporting related to contract performance such as CPRs, CFSRs, and C/SSRs, and	
	d. FFP and FPI/FPR contract items.	
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.	
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	

Master Document – Audit Program

<p>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. Obtain the following:</p>	
<p>a. Supporting details of the QLOP statement,</p>	
<p>b. Progress payment (SF 1443) submittal nearest to the date of the QLOP statement,</p>	
<p>c. Contractor-generated and/or contract-required cost performance reports or other related financial reports having issue dates nearest to the QLOP statement date, and</p>	
<p>d. Summary listing by date of DD250s identifying delivered items, quantity, unit price, and extended price.</p>	
<p>6. Evaluate the Internal Control Audit Planning Summaries for related systems to obtain an understanding of the contractor's policies, procedures, and related internal controls which may impact the scope of this audit.</p>	
<p>7. 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>When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4a and 10-504.4a.</p>	
<p>8. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>9. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other 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</p>	

Master Document – Audit Program

<p>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	QLOP	
Version 3.2, dated May 2007		WP Reference
1. Verify/reconcile the following QLOP statement amounts:		
a. Total contract price of delivered supplies and services having final established prices accepted by the Government (FFP portion) to the amount stated on both the progress payment (SF 1443), line 21a, and the DD Form 250 summary listing.		
b. Total cost of delivered supplies and services accepted by the Government for which final prices have not been established as follows:		
(1) If the actual cost of each item delivered is maintained in the contractor's accounting records, then verify to these records.		
(2) Should accounting records not be maintained by items or services delivered, an alternate equitable method of allocating costs is acceptable. For example, actual costs incurred to date divided by equivalent units produced or the relationship of total estimated cost at completion to total contract price.		
(a) Determine the percentage of cost to price by dividing the sum of Items 12a and 12b (total cost at completion), by Item 5 (contract price) for FPI/FPR items, as shown on the		

Master Document – Audit Program

progress payment request (SF 1443).	
(b) Apply the above percentage to the contract price of the FPI/FPR items delivered to determine their cost. The amount computed should reconcile to the SF 1443, Item 20a.	
(3) If the results of the above computations do not provide reasonable reconciliation to the amounts reported in the QLOP submittal, analyze the contractor's methods and evaluate its reasonableness and equity.	
c. Profit on items delivered for which final prices have not been established:	
(1) Determine the reasonableness of the contractor's computation.	
(2) Complete Computation and Analysis for Profit of items for the selected SF 1443 plus for any other required financial report (See Step 3 below).	
d. Total amount of all invoices or vouchers for supplies delivered and accepted to determine that the amounts represent:	
(1) FFP items--contract unit prices	
(2) FPI/FPR items--contract target prices	
(3) Total contract--reconcile to progress payment SF 1443, line 21a (contract price of items delivered) and DD 250 summary listing.	
2. Determine if the sum of preceding steps 1.a, 1.b, and 1.c is greater or less than the amount invoiced in step 1.d. If the amount in 1.d is greater than the sum of 1.a, 1.b, and 1.c, the contractor may have received overpayment and the Government may be due a refund or credit. If the 1.d amount is less than the sum of 1.a, 1.b, and 1.c, the contractor may have been underpaid on the contract.	
3. If the contractor is required to submit other financial reports such as CPRs, reconcile the indicated EAC in these reports to the EAC shown in the SF 1443. Evaluate and report any significant variance, as well as any unreasonable amounts that may have been shown for the EAC.	
<u>Note:</u> EACs used to prepare QLOP statements and progress payment requests should be reconcilable and based on the same data reflected in CPRs, budgets, or management reports. Different estimates could result in the Government financing contract overruns. The contractor benefits when assuming an on-target or underrun position for progress payments and simultaneously reflecting an overrun or on-target position, respectively, for the QLOP statement. By misusing EACs, it is possible to create overpayments through progress payments and	

Master Document – Audit Program

billing prices.	
4. If the QLOP statement being audited is the initial submittal, ensure it was provided within 45 days after the end of the quarter of the contractor's fiscal year in which the first acceptable delivery or services performed under this contract was made.	

A-1	Concluding Steps	
	Version 3.2, dated May 2007	WP Reference
	1. Summarize audit results.	
	2. Discuss factual matters with the contractor as necessary.	
	3. Discuss with supervisor any further audit action which may be required based on the contractor's or ACO's reaction.	
	4. If exceptions are taken, discuss findings and contractor's reaction with the ACO for possible action and as advance notification.	
	5. Draft report in accordance with CAM 10-200 and 10-1200.	
	6. Update the ICAPS as appropriate.	