

**INTERNAL CONTROL MATRIX FOR
AUDIT OF BILLING SYSTEM CONTROLS**

Version No. 4.2

August 2006

<u>CONTROL OBJECTIVES</u>	<u>EXAMPLE CONTROL ACTIVITIES</u>	<u>AUDIT PROCEDURES</u>
<p>1. <u>MANAGEMENT REVIEWS</u> The contractor should have policies and procedures for periodic monitoring of the billing process, including regular compliance reviews to ensure that billing requests are in accordance with applicable regulations, contract provisions, and related contractor policies and procedures. This must include periodic reconciliations of contract costs, as identified by the accounting system to costs billed.</p>	<p>The contractor conducts periodic internal compliance reviews to reasonably assure that its policies and procedures are being implemented. The following compliance review areas warrant special consideration:</p> <ul style="list-style-type: none"> • Adequacy of written procedures. • Employee knowledge and compliance with policies and procedures. • Consistency with which the policies and procedures are applied and by whom. • Timely follow-up actions. 	<p>a. Verify that periodic reviews of contractor's billing system policies and procedures are conducted to ensure that:</p> <ul style="list-style-type: none"> • Policies and procedures are compliant with applicable Federal regulations and contract terms. • Policies and procedures have been implemented and are working effectively. and • Follow-up actions are taken on recommendations resulting from management reviews. <p>b. Evaluate the contractor's record of completed internal audits and its current internal audit plan to determine if the billing system is being subjected to periodic review in accordance with established polices and procedures.</p> <p>c. Identify and selectively evaluate documentary evidence and the frequency of the contractor's management reviews to determine whether the scope of such reviews are appropriate, the conclusions sound, and appropriate follow-up actions were taken.</p> <p>d. Identify any reviews which may have an impact on this examination and evaluate the reports and supporting working papers to determine if any system deficiencies were noted, and the extent to which we can rely on the work performed (see CAM 4-1000).</p>
<p>2. <u>POLICIES AND PROCEDURES</u> Provide adequate written policies and</p>	<p>Written policies and procedures exist to address</p>	<p>Evaluate the contractor's policies and procedures and</p>

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procedures and training on the preparation and submission of billing requests in accordance with applicable regulations and contract provisions.	topics such as: a. Training appropriate personnel on preparation and submission of billing requests. Training should include topics such as: <ul style="list-style-type: none"> • Billing procedures, including briefing of contracts, review and approval process, etc. • Applicable FAR requirements. • Revisions to company policies and Government billing regulations. 	assess their adequacy in the following areas: a. Training of employees involved in the preparation of billing requests. Verify that policies, procedures, and course materials are adjusted to comply with revisions to company policies and Government rules and regulations.
	b. Briefing of contracts to identify personnel responsible for briefing contracts, frequency of briefings, and billing requirements, such as, but not limited to, the following: <ul style="list-style-type: none"> • Specific requirements regarding contractual unallowables. • Ceiling and funding limitations. • Cost sharing arrangements. • Retentions and withholds. • Required frequency of billings. • Profit or fee provisions in the contract. • Specific requirements regarding forms and additional required documentation. • First article approval provisions. • The classes of labor and the types of operations to which the contractual rates apply in time and material contracts. • Liquidation rates. • Unique contract clauses that impact billings. • Applicable FAR provisions. 	b. Briefing of contracts to identify and document billing requirements, including all contract modifications, withholds, special provisions, etc. and update of the briefs accordingly.
	c. Management reviews and approves billings.	c. Verify management review of billings prior to submission.
	d. Contractor evaluates adequacy of subcontractors' accounting and billing systems prior to providing the subcontractors with interim financing.	d. Evaluate subcontractors' accounting and billing systems to determine that the systems are adequate prior to providing the subcontractors with interim financing.
	e. Contractor verifies and monitors adequacy of subcontractors' accounting and billing systems ensuring that systems identify and resolve	e. Monitoring the adequacy of subcontractors' accounting and billing systems and identifying and resolving subcontractor

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	subcontractor overpayments, contract administration adjustments, offsets, and refunds.	overpayments/underpayments, contract administration adjustments, offsets, and refunds. Ensure that contractor procedures: <ul style="list-style-type: none"> • Provide for obtaining documentation on the adequacy of the subcontractors' accounting and billing systems, including obtaining documentation that the subcontractors provide timely notification to the prime contractor of any overpayments/underpayments. • Provide for obtaining, on a periodic basis, the subcontractors' reconciliation of billed and paid amounts on the subcontract. • Require the contractor to immediately notify the subcontractor(s) of any contract administration adjustment impacting the subcontractor(s) billings and that refunds or offsets are processed within 30 days. • Require the prime contractor to timely adjust its billings or submit refunds to the Government for identified subcontractor overpayments that have been included in billings to the Government, contract administration adjustments, offsets, and refunds.
	f. The contractor policies and procedures should address timely processing of contract administration adjustments.	f. Processing timely contract administration adjustments. Ensure that the contractor: <ul style="list-style-type: none"> • Maintains a schedule of contract administration adjustments. • Computes adjustments accurately. • Reflects the impact of contract administration adjustments in billings or refunds within 30 days of the date of the administration adjustment.
	g. The contractor policies and procedures should address timely processing of Government demand letters.	g. Processing Government demand letters for payment. Ensure that procedures: <ul style="list-style-type: none"> • Appropriately identify demand letters. • Require refunds or offsets to be submitted within 30 days of the date of the demand

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		letter. <ul style="list-style-type: none"> • Require submission of documentation to the paying office within 30 days of the date of the demand letter if the amount in the demand letter is disputed.
	h. The contractor policies and procedures should address timely processing of offsets.	h. Assessing the adequacy for processing timely offsets. Ensure that the contractor's procedures: <ul style="list-style-type: none"> • Require significant offsets of overpayments and contract administration adjustments to be made only after notification to, and instruction from the contracting officer and paying office (and the contractor maintains adequate documentation of this coordination.) • Require processing of approved offsets on a timely basis, usually within 30 days of identification of the overpayment or contract administration adjustment. • Require processing of offsets only on the same contract where the overpayment or contract administration adjustment occurred. • Allow processing of offsets only on valid invoices submitted to the paying office. • Do not allow the contract to remain in an overpaid status after the offset is processed. • Require adequate accounting records to be maintained to show all offsets at the invoice level and the overpayment/underpayment status for all in-process and physically completed contracts.
	i. The contractor periodically reconciles billing system data and records to the cost accounting records.	i. Reconciliation of billing system data and records to the cost accounting records. If applicable, ensure that practices used to accumulate and bill costs are consistent with practices used to estimate contract cost (CAS 401 and FAR 31.201-1 and 31.203(d)) and that costs accumulated and billed are allowable in

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	<p>j. The contractor periodically reconciles recorded costs to billed costs.</p>	<p>accordance with FAR 31.</p> <p>j. Reconciliation of recorded costs to billed costs and submitting timely credit billings and refunds where billed costs exceed incurred costs due to subsequent cost reduction to the contract. Ensure that the contractor:</p> <ul style="list-style-type: none"> • Reconciles recorded and billed costs on a periodic basis for both in-process and physically complete (but not closed) contracts. • Submits credit billings and refunds timely when billed costs exceed recorded costs.
	<p>k. The contractor makes prompt adjustments of billings to reflect appropriate interim, year-end and final indirect rates and direct costs, and ensures subcontractors make comparable adjustments in their billings.</p>	<p>k. Adjustments of billings to reflect appropriate interim year-end and final indirect rates and direct costs including an evaluation of subcontractors' billings to determine if they are also making interim, year-end, and final billing rate adjustments.</p>
	<p>l. The contractor excludes the following nonbillable costs from billings:</p> <ul style="list-style-type: none"> • Accrued costs of direct materials and subcontract costs that the contractor has not paid in accordance with the terms and conditions of the subcontract or invoice and ordinarily will not be paid within 30 days of the contractor's payment request to the Government. • Accrued costs that the contractor is delinquent in paying in the normal course of business. • Accrued costs of pensions, post retirement benefits, and profit sharing or employee stock ownership plans that have not been paid at least quarterly (within 30 days after the end of the quarter). • Costs of progress payments made to subcontractors on terms less favorable to the Government than the progress payment clause contained in the prime contract. In 	<p>l. Exclusion of the following nonbillable items from billings:</p> <ul style="list-style-type: none"> • Accrued costs of direct materials and subcontract costs that the contractor has not paid in accordance with the terms and conditions of the subcontract or invoice and ordinarily will not be paid within 30 days of the contractor's payment request to the Government. • Accrued costs that the contractor is delinquent in paying in the ordinary course of business. • Accrued costs of pensions, post retirement benefits, and profit sharing or employee stock ownership plans that have not been paid at least quarterly (within 30 days after the end of the quarter). • Costs of progress payments made to subcontractors on terms less favorable to the Government than the progress payment clause contained in the prime contract. In

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	cases where the costs of subcontract progress payments are included in billings to the U.S. Government, the contractor monitors performance and expected profitability under subcontracts, and reduces or suspends subcontractor progress payments as necessary to protect against overpayment and losses.	cases where the costs of subcontract progress payments are included in billings to the U.S. Government, ensure that the contractor has procedures to protect against overpayment and losses. These procedures should include the monitoring of performance and expected profitability of the subcontractors and reducing or suspending subcontractor progress payments as necessary.
	m. The contractor develops estimates of costs attributed to items delivered/invoiced as appropriate for use in calculating progress payment amounts.	m. Estimates of costs attributed to items delivered/invoiced.
	n. The contractor timely identifies loss contracts and makes appropriate adjustments to billings for costs attributable to the loss.	n. Prompt notification to the Government that adjustments of billings may be required for potential loss contracts for that portion of the costs attributable to the loss.
	o. The contractor properly controls Government assets whose costs are billed directly to the Government and provides the listing of the assets as required.	o. Title to Government assets whose costs are billed to the U.S. Government.
	p. The contractor develops estimates at completion on a timely basis, at least every 6 months, including anticipated contract losses.	p. Use of the most current estimates to complete to prepare the billings.
	q. The contractor validates and briefs the Government on all changes to the billing system and related software before the changes are implemented.	q. All changes to the billing system and related software are validated and briefed to the Government prior to implementation.
	r. The contractor maintains cumulative allowable cost records required for the accurate and timely preparation of interim and final vouchers.	r. Maintenance of cumulative allowable cost records required for the accurate and timely preparation of interim and final vouchers.
	s. The contractor monitors the timely preparation and submittal of final vouchers.	s. Monitoring the timely preparation and submittal of final vouchers.
	t. The contractor compares amounts received to amounts billed for each invoice and follows-up with the payment office on any discrepancies. If the discrepancy is an overpayment, it should be immediately remitted to the paying office.	t. Comparison of amounts received to amounts billed for each invoice and follow-up with the paying office if amounts differ. If amounts received are greater than amounts billed, the difference should be immediately remitted to the

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		paying office. Verify procedures to identify and document the contractor's process for resolving overpayments within 30 days after overpayment is made.
	u. The contractor has procedures to address contracts with progress payments to ensure the use of the appropriate liquidation rate against the delivery invoice.	u. Ensure that on contracts with progress payments, the appropriate progress payment liquidation rate is applied when the delivery invoice is recorded in the contractor's accounting records. Contractors should have procedures to: <ul style="list-style-type: none"> • Brief the contract to identify the appropriate liquidation rate. • Apply the appropriate liquidation rate against the delivery invoices and record the net amount in the accounts receivable records (for comparison to amounts received). • Identify payment variances as a result of differences in application of liquidations between the paying office and the contractor. • Research payment variances to determine if overpayments exist. • Immediately refund overpayments due to liquidation errors and coordinate with paying office and resolve within 30 to 60 days (refund or offset on next billing) if overpayments are due to timing differences.
	v. When the contractor submits a delivery invoice, it credits the Government for progress payments billed against the delivered items.	v. Reduction of billed amounts on delivery invoices for previously received progress payments.
	w. The contractor has procedures in place to assure that fixed-fee withholds on cost-reimbursement and T&M contracts are withheld in accordance with contract terms.	w. Withholding of fixed fees for cost reimbursement and T&M/labor hour contracts in accordance with contract terms, if applicable.
3. <u>IMPLEMENTATION OF POLICIES AND PROCEDURES</u>	Policies and procedures are executed to assure the following:	The auditor should ensure that policies and procedures are executed to assure only billable

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Provide that policies and procedures are executed to assure only billable costs/prices/fees applicable to U.S. Government contracts are included in billings in accordance with applicable regulations and contract terms.	a. Contractor disseminates policies and procedures to applicable employees.	costs/prices/fees applicable to U.S. Government contracts are included in billings in accordance with applicable regulations and contract terms, by performing the following steps: a. Interview billing personnel to determine whether they are familiar with, have access to, and actually refer to the written policies and procedures.
	b. The contractor verifies that policies and procedures are being followed.	b. Test to determine if the policies and procedures are being followed by: <ul style="list-style-type: none"> • Observation of the billing process. • Inspection of selected billing records and documentation.
	c. Applicable employees are trained on the contractor's billing policies and procedures.	c. Selectively evaluate evidence that employees responsible for preparing billing requests have been trained in applicable billing policies and procedures. For example, check training records, course materials, and attendance sheets; interview employees; etc.
	d. The contractor briefs contracts and reflects applicable contract requirements in their billings.	d. Selectively compare the contractor's contract briefings to the applicable contract and related billings to determine if they adequately brief contracts and that they reflect unique contract requirements in their billings
	e. Management performs an adequate review of all billings prior to their submission.	e. Selectively evaluate evidence that management reviewed and approved billings. For example, verify management approval signatures, etc.
	f. The contractor assesses subcontractor systems prior to providing interim financing.	f. Selectively evaluate that the adequacy of subcontractors' accounting and billing systems are assessed prior to providing the subcontractors with interim financing.
	g. The contractor verifies subcontractor procedures for identifying and resolving overpayments, contract administration adjustments, offsets and refunds.	g. Selectively evaluate evidence that contractor is verifying subcontractor's procedures for identifying and resolving overpayments, contract administration adjustments, offsets and refunds are being complied with. If these procedures are not being addressed by the contractor, request assist audits from the

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	h. The contractor maintains a complete schedule of contract administration adjustments.	<p>cognizant FAOs.</p> <p>h. Verify that the contractor's schedule of contract administration adjustments is complete by performing the following processes:</p> <ul style="list-style-type: none"> • Selectively review contract briefings on major contracts to identify required adjustments, such as quarterly limitation of payments. • Review contract modifications on major contracts for prior 12 months to identify contract administration adjustments and verify that they were included on contractor's schedule. • Obtain the contracting officer's comments on the completeness and accuracy of the schedule for major contracts selected above.
	i. The contract administration adjustments are properly recorded and processed timely.	<p>i. Select and review a sample of significant contract administration adjustments administered by the contractor to determine:</p> <ul style="list-style-type: none"> • The reason(s) for the adjustment. • If the adjustment was accurately recorded. • That a refund or offset was processed within 30 days of the date of the adjustment.
	j. The contractor maintains a complete list of demand letters for timely processing of required actions.	<p>j. Test completeness of the contractor's list of demand letters. Coordinate with the Regional Task Force member to obtain a listing of demand letters (the request should include contractor CAGE code).</p>
	k. The contractor demand letters are properly addressed in a timely manner.	<p>k. Select and review a sample of significant demand letters issued during the last 12 months to determine:</p> <ul style="list-style-type: none"> • The reason(s) for the demand letter. • That the contractor has processed a refund or offset or disputed the debt in a timely manner (within 30 to 60 days). • That the contractor maintains adequate documentation for its position on any

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		disputed debt.
	l. The contractor reviews significant offsets to determine if they meet criteria for allowable offsets.	l. Selectively review significant offsets to determine if appropriate criteria met.
	m. The contractor identifies all offsets during the review of billed and paid amounts, reconciliation of recorded and billed costs, contract administration adjustments, demand letters, and subcontract billings..	m. Ensure that all offsets have been identified during the review of billed and paid amounts, reconciliation of recorded and billed costs, contract administration adjustments, demand letters, and subcontract billings.
	n. The contractor maintains a list of refunds to the Government to ensure adequacy of documentation and timely processing.	n. Verify the completeness of the list of refunds to the Government for the last 12 months by selectively comparing the list to copies of checks issued to the Government.
	o. The contractor's reasons for refunds are properly documented in a timely manner.	o. Select a sample of significant refunds to: <ul style="list-style-type: none"> • Determine the reason(s) for the refund(s) and the adequacy of the documentation related to the refund. • Determine whether the refunds were processed in a timely manner, i.e., 30 to 60 days after the overpayment occurred.
	p. The contractor identifies all refunds identified during the review of billed and paid amounts, reconciliation of recorded and billed costs, contract administration adjustments, demand letters, and subcontract billings.	p. Ensure that all refunds have been identified during the review of billed and paid amounts, reconciliation of recorded and billed costs, contract administration adjustments, demand letters, and subcontract billings.
	q. The contractor validates and briefs the Government on billing system and related software changes before implementation.	q. Selectively evaluate billing system and related software changes to determine if they were validated and briefed to the Government prior to implementation.
	r. The contractor compares amounts received to amounts billed for each invoice and follows-up with paying office on any discrepancies, especially overpayments.	r. Selectively evaluate contractor comparisons of amounts received to amounts billed for each invoice and determine, when the amount differs, if appropriate notifications were made to the paying office (especially for overpayments). Determine if the paying office requested actions were complied with.
	s. The contractor periodically reconciles billing system data and records to the cost accounting records.	s. Selectively compare contractor reconciliations of billing system data to the cost accounting records. If applicable, ensure that practices used

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		to accumulate and bill costs are consistent with practices used to estimate contract costs (CAS 401 and FAR 31.201-1 and 31.203(d)) and that costs accumulated and billed are allowable in accordance with FAR 31.
	t. The contractor reconciles recorded to billed costs to verify it includes all significant contracts (including all open physically completed contracts with no recent billing activity).	t. Review the contractor's reconciliation of recorded to bill costs to verify it includes all significant contracts (including all open physically completed contracts with no recent billing activity). Compare the contracts in the contractor's reconciliation schedule to a verified listing of in-process and physically complete contracts. Determine that the calculation of recorded costs (for this comparison purpose) is based on acceptable indirect rates (see CAM 6-705.1).
	u. The contractor promptly adjusts billings to reflect appropriate interim revisions, year-end and final indirect rates and direct costs, and ensures that subcontractors make comparable adjustments in their billings.	u. Verify the contractor promptly adjusts billings to reflect appropriate interim revisions, year-end and final indirect rates and direct costs. Ensure that subcontractors make comparable adjustments in their billings.
	v. The contractor has an accurate and complete listing of outstanding overpayments, if any.	v. Review the accuracy and completeness of the contractor's listing of outstanding overpayments, if any. <ul style="list-style-type: none"> • Selectively review the contractor's comparisons of amounts received to amounts billed and other contractor documentation to determine if the list of payment variances is accurate and complete. • Review outstanding amounts on the aged accounts receivable and accounts payable listings to ensure these amounts are appropriately included on the list of outstanding overpayments. • Determine if the contractor's listing of overpayments includes all payment variances as a result of delivery invoice liquidation differences between the

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		contractor and the paying office. Review the contractor's accounting procedures for progress payment liquidations to verify that all outstanding variances have been identified. If liquidation differences are not identified, develop audit steps to identify the differences.
	w. The contractor appropriately addresses overpayments.	w. Select a sample of significant outstanding overpayments to: <ul style="list-style-type: none"> • Obtain information on the overpayment, e.g., a copy of the invoice, copies of payment records showing invoice amount and date, payment amount and date. • Document the reason for the overpayment. • Obtain the contractor's rationale for not returning the overpayment; and the contractor's documented significant actions taken to resolve differences.
	x. The contractor reduces the amount billed on individual delivery invoices by the appropriate amount of progress payments previously received.	x. Selectively evaluate delivery invoices and determine that the amounts billed are reduced for previously received progress payment amounts.
	y. The contractor should maintain cumulative allowable cost records to prepare accurate and timely interim and final vouchers.	y. Selectively evaluate interim and final closing vouchers submitted by the contractor and determine if the amounts billed are reconcilable to the cumulative allowable cost records used to prepare interim and final vouchers. Test for the following: <ul style="list-style-type: none"> • Cumulative amounts billed on interim vouchers do not exceed the total estimated ceiling costs on the contract and/or the current contract maximum funding levels. • Amounts claimed on the final voucher reconcile to the annual incurred cost audits or the cumulative allowable cost worksheet (CACWS); • Assist audits have been received on all significant subcontract costs prior to the

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		closing of the applicable contracts; <ul style="list-style-type: none"> • Subcontract assist audit cost results reconcile with claimed costs on the final voucher; • Refunds, rebates, credits, or similar amounts have been received, if any, and accounted for in the final voucher.
	z. The contractor monitors, timely prepares, and submits final vouchers.	z. Validate that final vouchers are monitored and timely prepared and submitted. Coordinate with the Contracting Administrative Offices for a schedule of completed contracts awaiting closure.