



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPS 730.5.26

September 26, 2014
14-PPS-017(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Guidance on Revised Policies and Procedures for Billing Oversight

This memorandum revises the DCAA policies and procedures for billing oversight and modifies the risk-based approach for selecting interim public vouchers.

What is the Purpose of Billing Oversight?

The purpose of the revised policies and procedures for billing oversight is to:

- Ensure performance of adequate billing oversight based on risk.
- Improve consistency and efficiency.
- Satisfy DCAA's responsibilities under FAR/DFARs.
- Enhance evaluation of interim public vouchers for:
 - Over/under billing; and
 - Improper payments.

What are the Significant Changes?

The key changes to the policies and procedures include:

- Removing references to the Direct Bill program due to a revision to DFARS 242.803.
- Revised the risk-based approach for selecting interim public vouchers at low-risk contractors.
- Developed a risk determination and sampling plan template for public vouchers at high-risk contractors.
- Created an assessment tool for pre-payment evaluation procedures on interim public vouchers.

Risk-Based Approach

What are the New Policies and Procedures for the Risk-Based Approach?

Linked Risk to Incurred Cost Assessment – We evaluated the current practice of performing a risk determination for setting the percent and dollar parameters for interim public vouchers to determine if it provides the best use of resources and sufficient coverage of interim

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public vouchers. Based on the evaluation, we are revising the current policies and procedures. FAOs should use the assessment of the most recent incurred cost proposal to determine whether the contractor is high or low-risk.

High-Risk Contractors – If the most recent incurred cost proposal is high risk, the FAOs will prepare a risk determination and sampling plan for interim public vouchers at least annually, using the template provided as Enclosure 1. FAOs should begin using the risk determination template for high-risk contractors for the upcoming Fiscal Year (FY) 2015 program planning.

Low-Risk Contractors – *FAOs are no longer required to prepare individual risk assessments and sampling plans for contractors with low-risk incurred cost proposals.* For the low-risk contractors, we have developed a guide that will be used to determine the number of vouchers (based on the annual number of vouchers the contractor submits) to be selected. We also are revising the high dollar threshold calculation for low-risk contractors based on average dollar value of annual vouchers. Headquarters will calculate these charts for low-risk contractors annually and provide them to the Regional Group Administrators (GAMs). GAMs will input the updated parameters for Wide Area Work Flow (WAWF) contractors. Thus, the FAOs will not need to adjust the parameters for the low-risk contractors in WAWF.

Vouchers Not Processed Through WAWF – For contractors who do not use WAWF or contractors with not all contracts being processed through WAWF, the FAOs will need to adjust the sampling parameters based on the data provided in Enclosure 2 at least annually.

Pre-payment Process

Why the New Pre-payment Evaluation Tool?

We developed a pre-payment assessment tool (Enclosure 3) for interim voucher reviews to promote consistency and efficiency in the voucher review process. The assessment tool addresses the minimum procedures FAOs need to perform for the pre-payment review of interim public vouchers. The tool also serves as documentation of the pre-payment review process. FAOs should upload the completed assessment tool in WAWF upon completion. For those contractors not using WAWF, FAOs should file the completed assessment tool in the Electronic Contractor Permanent File under F-03, Voucher Invoices.

FAOs should begin using the new pre-payment tool as soon as practical.

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Questions and Further Information

FAO personnel should direct questions to their regional points-of-contact, and regional personnel with questions should contact Policy Publications and Systems Division at (703)767-3220 or by e-mail at DCAA-PPS@dcaa.mil.

/Signed/
Donald J. McKenzie
Assistant Director
Policy and Plans

Enclosures: 4

1. Risk Determination for Public Voucher Parameters and Sampling Plan for Public Voucher Template
2. Dollar and Percent Parameter Calculations for Low-Risk Contractors
3. Interim Public Voucher Evaluation Assessment Tool
4. Frequently Asked Questions

DISTRIBUTION: E

RISK DETERMINATION FOR PUBLIC VOUCHER PARAMETERS AND SAMPLING PLAN FOR PUBLIC VOUCHERS

Contractor Name:	
Date Completed:	
CAGE Code (s):	
Date of Last Risk Assessment Completion:	

This purpose of this risk determination tool is to document the FAO's assessment of public voucher sampling parameters at high-risk contractors, based on the low-risk incurred cost process, and contractors with ADV of \$250M or more. The risk assessment should be performed at least annually, at all high-risk contractors and contractors with ADV of \$250M or more, and documented in the Permanent File.

SUMMARY OF REVISED SAMPLING PARAMETERS – Based on the risk factors identified in sections 2 and 3 below, revise the sampling parameters as follows:

	Current Parameters	Revised Parameters
High Dollar Threshold (Dollar Parameter)		
Sampling (X of XX) (Percent Parameter)		

Section 1																								
CURRENT SAMPLING COVERAGE FOR PUBLIC VOUCHERS																								
This section should document the total interim public vouchers submitted to government disbursement office(s), through wide area workflow (WAWF), manually, or other systems and reviewed by DCAA annually for this CAGE code. If the contractor uses WAWF, the FAO should go to the Cost Voucher Approver View Only Folder and will need to view the active and archive folder to obtain 12 months of history.																								
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**RISK DETERMINATION FOR PUBLIC VOUCHER PARAMETERS
AND SAMPLING PLAN FOR PUBLIC VOUCHERS**

Section 2			
	RISK ASSESSMENT FACTORS	YES	NO
1.	Does the ACO have any specific concerns related to the contractor's submission of public vouchers? If "yes", document those concerns. Administrative Contracting Officer Date(s) of Discussion		
2.	Contact the PCO or Contracting Officer's Representative (COR) to determine if they have specific concerns related to interim public vouchers on their contract(s)? If "yes", document specific concerns. Contracting Officer/COR Name Date(s) of Discussion		
3.	Are there any reported accounting/billing system deficiencies? If "yes", document audit report number where the system deficiencies have been reported and document specific deficiencies that have potential impact on the contractor billings. Also document the impact of the deficiencies on the risk assessment and the necessary adjustments to the sampling plan for public vouchers.		
4.	Are there any audit leads or other significant risk factors identified in the permanent files within the past couple of years? If "yes", document specific risk identified that have potential impact on the contractor billings and the impact on the risk assessment and sampling plan for public vouchers.		

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**RISK DETERMINATION FOR PUBLIC VOUCHER PARAMETERS
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5.	Have post-payment reviews disclosed any over or improper payments since the last risk assessment? If “yes”, summarize and the actions taken as a result (e.g., adjustment voucher, DCAA Form 1) and the potential impact on the contractor’s future billings.		
6.	If there have been a significant number of public vouchers rejected since the last risk assessment, are the rejections related to individual processing departments or specific employees in the contractor’s billing department? If “yes”, document the circumstances and any corrective action taken by the contractor (e.g., additional training, revised procedures). Document potential impact on the contractor’s future billings.		
7.	Is there any other risk related to the contractor’s submission of public vouchers that the auditor should consider? If “yes”, document the risk and actions taken here.		

RISK DETERMINATION FOR PUBLIC VOUCHER PARAMETERS AND SAMPLING PLAN FOR PUBLIC VOUCHERS

Section 3	
ADJUSTED SAMPLING COVERAGE FOR PUBLIC VOUCHERS	
Sampling Objective:	To document adjusted sampling parameters for public vouchers routed to DCAA for evaluation and approval.
Scope of the Sample:	Our risk-based sampling methodology includes high-dollar vouchers, first vouchers (for contract/delivery order/task order), and a sampling of the remaining vouchers.
Risk-Based Parameters(CAGE Code):	Considering current sample coverage (Section 1), for the contractor's public vouchers and risk assessment factors (Section 2), we determine the parameters at the CAGE code level should be adjusted as follows: High Dollar Parameter*: The high dollar parameter will be adjusted from \$ to \$ because All Other Sampling Parameter*: The random sampling parameter will be adjusted from reviewing X of XX vouchers to to X of XX vouchers because <i>*Consider anticipated increase/decrease in total billing amount and/or number of vouchers when adjusting the parameters.</i>
Risk-Based Parameters (Contract/Delivery Order/Task Order):	If there are specific contracts, delivery orders, or task orders that the risk is different than the overall risk at the contractor, and the parameters need to be set at different levels than documented above, document the risk and the adjusted parameter sections below.

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**RISK DETERMINATION FOR PUBLIC VOUCHER PARAMETERS
AND SAMPLING PLAN FOR PUBLIC VOUCHERS**

COMPLETED BY

(Auditor's Signature and Date)

**SUPERVISORY
REVIEW:**

(Supervisor's Signature and Date)

**FAO MANAGER
REVIEW:**

(FAO Manager's Signature and Date)

FAO's should submit approved requests for WAWF parameter adjustments to the Regional "Cost Voucher Administrator" using the Parameter Change Request Form.

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Annual Vouchers		Sampling	<u>No. Vouchers for Annual Review</u>		
<u>From</u>	<u>To</u>	<u>Parameter</u>	<u>Min.</u>	<u>Max.</u>	<u>Average</u>
1	12	10.00%	1	1	1
13	50	8.00%	1	4	3
51	100	7.00%	4	7	6
101	200	6.00%	6	12	9
201	500	5.00%	10	25	18
501	1,000	4.00%	20	40	30
1,001	2,000	3.00%	30	60	45
2,001	5,000	2.00%	40	100	70
5,001	10,000	1.50%	75	150	113
10,001	50,000	0.50%	50	250	150

PERCENT PARAMETER: The percent parameter should be determined based on the total number of vouchers the contractor submitted. For example, if the contractor submitted a total of 150 vouchers, the percent parameter should be 6.00%.

PUBLIC VOUCHER ASSESSMENT TOOL

Contract Number:	
Delivery Order (DO) Number:	
Voucher Number:	
Voucher Amount:	

REFERENCE: CAM-6-1008, Review and Approval of Interim Public Vouchers Submitted to the Auditor

Objective: Interim public vouchers routed to the auditor will be evaluated within five working days and either:

- Approved for provisional payment and forwarded to the disbursing office, or
- Returned (i.e. rejected) to the contractor for correction as quickly as possible. Returned or rejected vouchers should also include comments explaining why we are rejecting.

The evaluation of each interim public voucher will be documented by the completion of this assessment tool by either the Cost Voucher Approver or the Cost Voucher Reviewer.

- Cost Voucher (CV) Approvers – Auditors delegated with signature authority to provisionally approve interim vouchers (see DCAAI 5600.1).
- Cost Voucher (CV) Reviewer – Professional support staff or another auditor assisting the CV Approver.

The evaluation of the interim public voucher does not constitute an audit in accordance with the Generally Accepted Government Auditing Standards. Rather, it is an evaluation of the public voucher to determine if it was prepared in accordance with contract terms and provisions and to pursue adjustments as needed for any overbillings/overpayments.

The following information should be obtained from WAWF or via other methods for vouchers not submitted through WAWF (i.e., hard copies):

- Cost Voucher (SF 1034 equivalent)
- Supporting Documents (SF 1035 equivalent)

The following information should be obtained from Electronic Document Access – EDA (if it is not available in EDA, request that the contractor provide the information):

- Special Contract provisions – Section H and Section I
 - Any other specific billing instructions
- Delivery Order
- Contract Modifications (Mods)
- Period of Performance
- Contract Funded Amount

PUBLIC VOUCHER ASSESSMENT TOOL

At a minimum, the evaluation of the public voucher will consist of the following procedures:	Yes No N/A	Filename and Page Reference																
<i>Reviewer (Professional Support Staff/Auditor) and/or Approver should perform the following steps:</i>																		
1. Does the voucher have the correct contract number and CAGE code?																		
2. Do the contract number, voucher number, and dollar amount on the voucher agree with the attached supporting documentation?																		
3. Are billed costs within the period of performance (POP)? If needed, modify to address certain circumstances such as the contractor billing by Contract Line Item Number, or to suit the specific needs of the FAO.																		
<table border="1" style="width: 100%; border-collapse: collapse; margin: 10px 0;"> <thead> <tr> <th style="width: 25%;">POP</th> <th style="width: 25%;">Contract</th> <th style="width: 25%;"></th> <th style="width: 25%;">SF 1034/1035</th> </tr> </thead> <tbody> <tr> <td>Contract Start Date:</td> <td></td> <td>Start Billing Date:</td> <td></td> </tr> <tr> <td>Contract End Date:</td> <td></td> <td>End Billing Date:</td> <td></td> </tr> </tbody> </table>	POP	Contract		SF 1034/1035	Contract Start Date:		Start Billing Date:		Contract End Date:		End Billing Date:							
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4. Does the voucher include current and cumulative billed amounts?																		
5. Is the voucher free of mathematical errors?																		
6. Does the Contracting Officer or the Contracting Officer's Representative have any specific concerns related to the contract or voucher?																		
7. Are costs/fee billed in accordance with contract provisions as provided in contract brief and/or actual contract/modification?																		
8. Did the contractor use appropriate billing rates (current year provisional billing rates or revised billing rates to reflect final settled/audited indirect rates)?																		
9. Do the current and cumulative costs billed reconcile to the contractor's accounting records (e.g., job cost ledger, payroll ledger, etc.)?																		
10. If the voucher contains significant subcontract or supplies and service costs, are they in accordance with the requirements of FAR 52.216-7(b)(1)(ii)(A) (i.e., paid, or will be paid within the terms and conditions of the subcontract or invoice, ordinarily within 30 days)?																		
<i>The following procedures are applicable to Cost-Reimbursable Contracts:</i>																		
11. Are the fees and costs claimed within the contract funded and/or ceiling amounts?																		
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Cumulative	SF 1035	Funded	Contract															
Cost:		Cost:																
Fee:		Fee:																
Total:	\$	Total:	\$															
Claimed award fee is in accordance with the contract plan and a determination and finding of the suitability of the fee is complete (see																		

PUBLIC VOUCHER ASSESSMENT TOOL

At a minimum, the evaluation of the public voucher will consist of the following procedures:	Yes No N/A	Filename and Page Reference
FAR 16.401 (e) (3)). For fixed-fee, review contract to determine if FAR 52.216-8 clause is applicable. If so, ensure the contractor withholds 15% or \$100,000, whichever is less, of the fixed-fee. For details on how the contractor should withhold fixed-fee, reference the contract to determine if the PCO added a schedule or any special instructions. If the PCO did not add a schedule or any special instructions, coordinate with the ACO to determine the preferred method for withholding fixed-fee.		
<i>The following procedure is applicable to a Letter Contract or Unfinitized Contract:</i>		
12. Is the voucher in accordance with contract clause 52.216-26, Payments of Allowable Costs before Definitization?		
<i>The following procedures are applicable to T&M and Labor Hour Contracts (LHC):</i>		
13. If required, has the contractor withheld a percentage of billable labor costs, not to exceed a total of \$50,000 per contract? (FAR 52.232-7(a)(7))		
14. Are labor hours supported by applicable timekeeping records/invoices by labor category under the contract?		
15. Are the rates billed in accordance with the negotiated rates in the contract?		
<i>Final step:</i>		
16. Based on the evaluation, the voucher should be (Accepted/Rejected) . Accepted Rejected If Rejected, we are rejecting because 		

The completed public voucher assessment tool documents the effort performed to determine whether or not the interim public voucher is acceptable for payment. Upon completion, it should be included as an attachment in WAWF to document our evaluation. For contractors not using WAWF, the assessment tool should be maintained in the contractor's Electronic Permanent File under Folder F-03, Voucher invoices.

CV REVIEWER AND DATE:

(Reviewer's Signature/Date)

PUBLIC VOUCHER ASSESSMENT TOOL

CV APPROVER AND DATE:

(Approver's Signature/Date)

FREQUENTLY ASKED QUESTIONS

Guidance on Revised Policies and Procedures on Billing Oversight

Question 1. Does the Direct Bill Program still exist?

Answer. No. A revision to DFARS 243.803 removed the reference to the direct submission of interim vouchers and replaced with language stating the auditor would select vouchers using a sampling methodology. Since the DFARS no longer provides for the Direct Bill Program, FAOs should be using the risk-based approach to select interim vouchers for review.

Question 2. What pre-payment procedures can professional support staff perform from the pre-payment assessment tool?

Answer. It depends on the professional support staff's familiarity with and knowledge of the voucher review process. If the voucher approver feels confident with the professional support staff's ability to adequately perform the pre-payment procedures, the support staff can perform all of the procedures. On the other hand, if the professional support staff member is new to the agency, he/she may only be able to perform math verification procedures. In any case, the professional support staff is not allowed to approve a voucher. The voucher approver must review the work performed by the reviewer and approve the voucher.

Question 3. Is it necessary to brief the contract as part of the pre-payment voucher review process?

Answer. The reviewers/approvers should have a clear understanding of contract billing instructions (e.g., ceiling indirect rates, special requirements for travel costs, overtime, etc.) for the vouchers they review. If the contractor prepares contract briefs, and we have determined that we can place reliance on them (see CAM 3-202 a.), the reviewer/approver may use it to evaluate if the costs are in accordance with contract terms. If contract briefs are not available, the reviewer/approver should review actual contract/modification to verify adequacy of the costs billed and prepare a contract brief to support future reviews.

Question 4. Is it necessary to perform a field visit to reconcile the contractor's current and cumulative costs to the contractor's accounting records?

Answer. The reviewers/approvers should reconcile the billed costs to the contractor's accounting records such as job cost ledgers, payroll ledgers, and accounts payable ledgers to verify adequacy of the costs billed at major contractors. It is not necessary to perform a field visit to reconcile the voucher during the pre-payment review at non-major contractors, since the auditor can do so during the next field visit. If there is no field visit planned for the current fiscal year, the reviewer or approver may obtain the information necessary to reconcile the costs via other methods such as e-mail if DCAA has visited the contractor and performed audit procedures in the past. FAOs should plan to make a field visit if DCAA has never made a field visit to the contractor.

FREQUENTLY ASKED QUESTIONS
Guidance on Revised Policies and Procedures on Billing Oversight

Question 5. How do I know if I need to perform a risk determination for public voucher parameters and sampling plan for my contractor?

Answer. You should use the assessment of the most recent incurred cost proposal to determine if your contractor is a high or low risk contractor. You will need to perform a risk determination and sampling plan for all high-risk contractors. If the contractor's ADV from the last incurred cost proposal is more than \$250M, this contractor is automatically considered a high-risk contractor and a risk determination and sampling plan should be performed at least annually. If the contractor's ADV from the last incurred cost proposal is \$250M or less, you will need to review the incurred cost risk assessment tool to determine if the proposal was considered high-risk.

Question 6. What do we do if the contractor is late in submitting adequate incurred cost proposal for the latest fiscal year?

Answer. If the contractor is late in submitting adequate incurred cost proposal, FAOs should consider whether the contractor should be high-risk depending on the reasons for the delay. For example, if the contractor's failure to submit adequate incurred cost proposal is due to minor corrective actions, the contractor may be considered low-risk. However, if the contractor's failure is due to significant deficiencies, the contractor should be considered high-risk until the deficiencies are corrected.