



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PPS 730.5.26

September 12, 2014
14-PPS-015(R)

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

SUBJECT: Audit Guidance on Revised Policies and Procedures for Testing of Paid Vouchers

Headquarters revised standard procedures for testing of paid vouchers under Activity Code 11015.

Why are we revising the procedures for testing of paid vouchers?

A revision to DFARS 242.803, Disallowing costs after incurrence, effective August 29, 2012, replaced direct submission of interim public vouchers for provisional payment with a selection of vouchers using a sampling methodology. Accordingly, it is no longer necessary for FAOs to determine if contractors are eligible to participate in the Direct Bill Program.

FAOs with 11015 assignments in process may complete the assignment, but should not issue a memorandum indicating that the contractor should continue to participate in the Direct Bill Program. The memorandum should summarize the results of the procedures and note any potential noncompliances. If the assignment discloses a potential noncompliance, auditors should prepare an audit lead and the office should set up an 11090 Business System Deficiency assignment to determine if the noncompliance exists. The FAO also may need to issue a DCAA Form 1 or a notification letter to the payment office if the audit identifies any overpayments, as discussed in the current audit program.

Although we no longer are required to determine eligibility for direct billing, we are responsible to ensure that the contractor is billing allowable costs and that they comply with the terms and conditions of their contracts. Therefore, we will continue to perform testing of paid vouchers. We are currently in the process of revising the 11015 standard program and will furnish the updated program and APPS by October 1, 2014.

The primary objective of the revised assignment is billing oversight. However, the results also are beneficial to other assignments and may serve multiple purposes. Examples of other areas where auditors could use these procedures include:

- In support of risk assessment for sampling low-risk indirect cost rate proposals;
- Annual risk assessment/sampling plan for establishing parameters for selecting interim public vouchers for pre-payment reviews;

- Assist in verifying that the contractor is billing pursuant to specific contract terms, funding or ceiling limitations during incurred cost audits (AP 10100 Section C-1 step 5 – Schedule I Reconciliations);
- Assist in testing to payment during incurred cost audits (AP 10100 Section B-1 step 31 – Testing to Payment)

Auditors should bear in mind that the procedures performed during the 11015 assignment act as a supplement and do not eliminate the requirement to perform testing in other audits.

Is this an audit service?

The revised procedures represent an audit service. We previously performed 11015 assignments as a non-audit service, but are now performing the assignments as an examination. As an audit service, we added the following procedures to the audit program: verify billed direct labor, materials and other direct costs to the accounting records and supporting documentation. The revised 11015 assignments are now part of our comprehensive audit of the contractor's incurred costs in the current period similar to MAAR 6 (floorchecks). Similar to the MAAR 6, auditors will close out the assignment with a memorandum. The memorandum should include a summary of the work performed, the results of the audit and specify the applicable contractor fiscal year.

Where is the memorandum stored?

The memorandum should be stored in the FAO's Permanent file and incorporated into the applicable incurred cost audit. We will update the incurred cost audit program to include procedures to incorporate the results of the applicable fiscal year testing of the paid voucher audit. Post-payment testing may precede the indirect rate proposal for the period, and it is not necessary to keep the 11015 assignment open until we receive the proposal since the memorandum will support the future incurred cost audit.

Should we discuss the results with the Contracting Officer?

We should discuss the results with the Administrative Contracting Officer (ACO), whether or not the audit disclosed any noncompliances with contract terms or unallowable costs. Sharing the results of audit with the ACO provides him/her with insight into the billing oversight practices and also may alert them to potential billing issues and/or improper payments.

How do we handle potential system noncompliances?

If the 11015 assignment discloses a potential system noncompliance (e.g., accounting or billing), auditors must establish an audit lead to ensure timely performance of additional audit effort. The office also should set up an 11090, Business Systems Deficiency assignment to determine if a noncompliance exists. The FAO should use the results from the 11015 assignment and perform additional testing to evaluate the potential noncompliance.

When do we start using the new program?

Beginning October 1, 2014, FAOs should plan to use the new program to perform annual testing of paid vouchers. We are time phasing the implementation at non-major contractors over a three-year cycle. FAOs should plan to perform post-payment testing on at least one voucher at each of the non-major contractors where we are approving vouchers during the three-year cycle. During that cycle, offices should select one third of the non-major contractors for each fiscal year and perform post-payment testing on at least one voucher. When time phasing, FAOs should prioritize contractors using risk factors including the annual dollar value of vouchers submitted and if the contractor has a history of either rejected vouchers or over/improper payments. After October 1, 2017, we will require testing on at least one voucher per year at every non-major contractor.

The guidance is effective at all major contractors beginning October 1, 2014. FAOs should select at least one paid voucher per quarter at every major contractor and perform post-payment testing on vouchers that DCAA has already sampled, reviewed, and approved for pre-payment using the risk-based approach.

Is it necessary to perform a separate field visit?

Auditors should perform the post-payment testing in conjunction with field visits for other assignments, when practical. If no other field visits are scheduled, the auditor should perform a separate field visit to perform the post-payment procedures.

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/

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