



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

IN REPLY REFER TO

PPD 730.5.26.1

April 24, 2008
08-PPD-014(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on DoD Commercial Time-and-Materials (T&M) and Labor-Hour (LH) Contracts

Summary

Auditors should include DoD commercial T&M and LH contracts as part of their overall audit coverage. This includes provisionally approving interim vouchers and reviewing final amounts billed under commercial T&M and LH contracts for compliance with contract terms. A new audit program and audit report shell under DMIS Activity Code 17740 has been established to perform a post award accounting system audit at contractors with DoD commercial T&M or LH contracts and no flexibly-priced contracts. An audit program and audit report shell under new DMIS Activity Code 17910 has been established to perform an audit of the contractor's final voucher for closing DoD commercial T&M/LH contracts.

This guidance applies only to DoD commercial T&M/LH contracts awarded on or after February 12, 2007 that include FAR 52.212-4, Alternate I.

Background

On April 14, 2008, Defense Procurement, Acquisition Policy, and Strategic Sourcing (DPAPSS) issued a memorandum (see Enclosure 1) reminding contracting officers that it is DCAA's responsibility for approving interim vouchers (DFARS 242.803). The DPAPSS memorandum also clarifies that this requirement extends to DCAA provisionally approving interim vouchers under DoD commercial T&M and LH contracts.

Federal Acquisition Circular 2005-15, effective February 12, 2007, revised FAR Part 12 to provide for commercial T&M and LH contracts (FAR Part 12.207, Special Requirements for the Acquisition of Commercial Items – Contract Type). FAR 52.212-4, Alternate I, contains the new contract terms and conditions covering commercial T&M and LH contracts. As detailed in MRD 07-PPD-023, dated July 31, 2007, commercial T&M/LH contracts provide for the following:

- Hourly labor rates will be paid at the rate specified in the contract and allows the use of blended labor rates (combined prime, subcontractor and/or interdivisional rates) by labor category.

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- Hourly rates will be paid only for labor performed on the contract that meets the labor qualifications specified in the contract.
- Material, subcontracts (not included as part of the labor schedule), and other direct costs will be reimbursed based on actual cost. ODC should be listed in the contract by type of expense (e.g., travel, computer usage charges).
- Indirect cost, as applicable, will be reimbursed at a fixed amount prescribed in the contract on a pro-rata basis over the contract period.

These new provisions contain an access to records clause (FAR 52.212-4, Alternate I(i)(4)) requiring access to contractor support for the amounts billed to ensure contractor compliance with contract terms. That clause allows the contracting officer (or authorized representative) access to the following:

- Records that verify that employees, whose time has been included in any invoice, met the qualifications for the labor categories specified in the contract.
- For labor hours, including any subcontractor hours reimbursed at the hourly rate in the schedule:
 - ✓ The original timecards (paper-based or electronic);
 - ✓ The contractor's timekeeping procedures; and
 - ✓ The contractor's records that show the distribution of labor between jobs or contracts.
 - ✓ Employees whose time has been included in any invoice for the purpose of verifying that these employees have worked the hours shown on the invoices.
- For material and subcontract costs that are reimbursed on the basis of actual cost—
 - ✓ Any invoices or subcontract agreements substantiating material costs; and
 - ✓ Any documents supporting payment of those invoices.

The prime contractor is responsible for monitoring and providing substantiation to the Government of the hours and amounts incurred by its subcontractors. Further, the contracting officer may require access to additional records, if agreed to by the contractor and specified in the contract.

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FAR 52.212-4, Alternate I(i)(5), allows reimbursement to the Government for any payments made that are later found by the contracting officer as not payable under the terms and conditions of the contract. This clause also requires the contractor to submit a final voucher within one year of contract completion.

Guidance

Contractor Locations with Incurred Cost Audit Activity

For contractors with current incurred cost audit activity, auditors should include DoD commercial T&M and LH contracts as part of its overall audit coverage of contract billings. The acceptability of costs billed under a commercial T&M/LH contract is determined based on the terms and conditions of the contract and is not subject to the provisions in FAR Part 31.2 or Cost Accounting Standards (CAS). Auditors should review contract briefs to ascertain the applicable contract clauses and develop the appropriate audit procedures to ensure claimed costs are in compliance with contract terms (FAR 52.212-4, Alternate I). Guidance on performing the review of interim vouchers and other reviews are detailed below:

- Audit of Interim Vouchers: Auditors should use the procedures found in Enclosure 2 for the review of interim vouchers. The extent of review of commercial vouchers should be governed by the materiality of the billed amounts and the adequacy of the contractor's billing system and eligibility for direct billing.
 - Direct Billing Contractors. For contractors participating in the direct billing program, auditors should ensure that when performing the next Annual Testing of Paid Vouchers assignment (DMIS Activity Code 11015), the universe for selection of vouchers for testing will include DoD commercial T&M/LH vouchers that include the FAR 52.212-4 Alternate I clause. (The Enclosure 2 audit steps will be incorporated into the "Paid Voucher" standard audit program.)
 - Not on Direct Billing Contractors. For contractors not participating in the direct billing program, vouchers for DoD commercial T&M/LH contracts should be selectively reviewed based on sampling techniques established by the FAO (CAM 6-1008b) for processing public vouchers. This effort will generally be charged to DMIS Activity Code 41500, Processing Public Vouchers.
- System Audits and Floor Checks: Auditors should ensure that DoD commercial T&M/LH contracts are included in the universe for transaction testing for system reviews, as appropriate, and should include employees charging to commercial T&M/LH contracts in the universe for selection for any floor checks performed.

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Contractor Locations with No Incurred Cost Audit Activity

At locations where DCAA has no current incurred cost audit activity, audits will be limited to provisional approval of vouchers, floor checks, and audits of final vouchers. To determine the adequacy of contractor's accounting/billing system for accumulating and billing costs under DoD commercial T&M/LH contracts, auditors should perform a limited audit of the contractor's accounting and billing systems using the new audit program, Post Award Accounting System Review at Contractors with Commercial Time-and-Materials or Labor-Hour Contracts (DMIS Activity Code 17740) in Enclosure 3. The applicable audit report shell is included as Enclosure 4. This new audit program also includes audit steps for performing floor checks at contractors with DoD commercial T&M/LH contracts (and no flexibly-priced contracts).

Auditors should consider reviewing the first voucher submitted to DCAA. Subsequent vouchers should be selectively reviewed based on sampling techniques established by the FAO based on the results of the Post Award Accounting System Review (Enclosure 3), and materiality of billings. Auditors should review selected vouchers based on the steps found in Enclosure 2 of this memorandum.

At this time, contractors with only commercial T&M/LH contracts will not be considered for participation in the direct billing program.

Audits for Final Vouchers

Since these commercial contracts do not contain the Allowable Cost and Payment Clause, contractors are not required to include these contracts as part of its annual incurred cost submission. Therefore, DCAA will perform final audits of these contracts when they are completed. When performing an audit of the contractor's final voucher, auditors should use the new audit program, Contract Audit Closing Statements for DoD Commercial Time-and-Materials (T&M)/Labor-Hour (LH) Contracts, and audit report shell (DMIS Activity Code 17910) in Enclosures 5 and 6, respectively. Auditors may disposition these assignments entering in DMIS the total dollars examined based on the total amounts billed for that contract.

Additional Guidance

Payments for commercial T&M and LH vouchers are made in accordance with the Prompt Payment Act (31 USC 3903) and are, therefore, subject to interest payments if they are paid more than 30 days after receipt of a proper invoice. Therefore, interim vouchers should be reviewed and either approved for payment and forwarded to the disbursing officer or returned to the contractor for correction as quickly as possible, but not later than five working days after receipt (CAM 6-1008a).

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We have coordinated with the Defense Contract Management Agency to ensure that Contract Administration Offices are aware of DCAA's authority and responsibility to approve interim vouchers on commercial T&M/LH contracts.

Auditors with questions should address them to their regional office. Regional questions concerning this memorandum should be directed to Policy Programs Division, at (703) 767-2270 or email DCAA-PPD@dcaa.mil.

/Signed/

Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosures: 6

1. DPAPSS Memorandum, dated April 14, 2008, Subject: Approving Payments under Cost-Reimbursement, Time-and-Materials and Labor-Hour Contracts
2. Procedures for Review of Interim Vouchers on DoD Commercial T&M/LH Contracts
3. Post Award Accounting System Audit at Contractors with DoD Commercial T&M or LH Contracts (DMIS Activity Code 17740)
4. Audit Report for Post Award Accounting System Audit at Contractors with DoD Commercial T&M or LH Contracts (DMIS Activity Code 17740)
5. Contract Audit Closing Statements for DoD Commercial T&M/LH Contracts (DMIS Activity Code 17910)
6. Contract Audit Closing Statement Audit Report for DoD Commercial T&M/LH Contracts (DMIS Activity Code 17910)

DISTRIBUTION: C



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OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

APR 14 2008

MEMORANDUM FOR COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(POLICY AND PROCUREMENT), ASA (ALT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION & LOGISTICS MANAGEMENT),
ASN (RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DIRECTOR, DEFENSE AGENCIES
DIRECTOR, DOD FIELD ACTIVITIES

SUBJECT: Approving Payments under Cost-Reimbursement, Time-and-Materials, and
Labor-Hour Contracts

The purpose of this memorandum is to reiterate the Department's policy on approving payments under cost-reimbursement, time-and-materials (T&M), and labor-hour (LH) contracts. For these contract types:

- DCAA has sole authority for verifying claimed costs and approving interim payment requests.
- The Administrative Contracting Officer (ACO) has the sole authority for approving final payment requests.

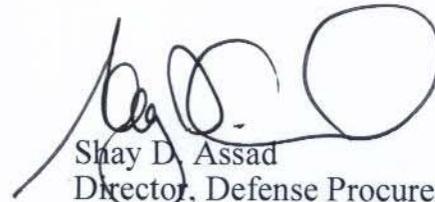
Contracting Officer's Representatives (CORs) shall not be delegated authority to approve these types of payments. In accordance with Defense Federal Acquisition Regulations Supplement (DFARS) 242.803, these functions are the responsibility of DCAA and ACOs. Although CORs may review contractor billings as part of their contract performance surveillance (e.g., hours billed and labor mix are commensurate with contract effort performed/ accomplished), the COR is expected to coordinate with DCAA when any cost verification of data is necessary in support of the COR's surveillance responsibilities.

Also, I want to clarify that the same requirements apply to payments on commercial T&M and LH contracts. Like noncommercial T&M and LH contracts, commercial T&M and LH contracts provide for disallowing costs during the course of performance after the costs have been incurred. Therefore, DCAA approves interim



payment requests, ACOs approve final payment request, and CORs coordinate with DCAA if any cost verification is needed in support of their surveillance.

Please ensure your acquisition workforce, including the CORs, are aware of this policy. The point of contact for this memorandum is Ms. Robin Schulze, Senior Procurement Analyst, who can be reached at 703-602-0326 or via e-mail at robin.schulze@osd.mil.

A handwritten signature in black ink, appearing to read 'Shay D. Assad', with a large circular flourish at the end.

Shay D. Assad
Director, Defense Procurement,
Acquisition Policy and
Strategic Sourcing

**Procedures for Review of Interim Vouchers on
DoD Commercial Time-and-Materials (T&M)/Labor-Hour (LH) Contracts**

- ✓ Review contract brief (FAO-prepared briefing cards or contractor-prepared briefing cards) for terms and conditions of contract.
- ✓ Verify mathematical accuracy of voucher.
- ✓ Selectively verify that employee hours reconcile to contractor accounting records (including any subcontractor/interdivisional labor hours billed). The prime contractor is responsible for monitoring and substantiating to the Government the hours and costs of subcontractors.
- ✓ Selectively verify that billed labor rates reconcile to the contract.
- ✓ Selectively reconcile material, subcontracts (not included in the labor rates) and other direct costs (ODC) to supporting contractor records. ODC should be specified by type in the contract (unique to DoD commercial T&M/LH contracts).
- ✓ Verify that fixed indirect costs, if any, are billed on a pro-rata basis over the period of contract performance as stipulated in the contract (unique to DoD commercial T&M/LH contracts).

Activity Code 17740	Post Award Accounting System Audit at Contractors with DoD Commercial Time-and-Materials (T&M) or Labor-Hour (LH) Contracts
Version 1.0, dated April 2008	
B-1	Planning Considerations
<p>1. This program is intended to be used for the performance of accounting system audits at contractors with DoD commercial Time-and-Materials (T&M) and Labor-Hour (LH) contracts and without flexibly priced contracts, to determine the adequacy of contractor accounting systems and practices for accumulating and billing costs under DoD commercial T&M/LH contracts. An accounting system is considered adequate if its procedures/practices (written or unwritten) are adequate to protect the Government's interest.</p> <p>2. Properly payable costs under a commercial T&M/LH contract are determined based on the terms and conditions of the contract and are <u>not</u> subject to the provisions in FAR Part 31.2 or Cost Accounting Standards (CAS).</p>	
References	
<p>1. CAM 6-1006, <i>Evaluation of Contractor's Procedures for Preparing Reimbursement Claims</i></p> <p>2. FAR Subpart 12.2, <i>Special Requirements for the Acquisition of Commercial Items</i></p> <p>3. FAR 52.212-4 and Alternate I, <i>Contract Terms and Conditions – Commercial Items</i></p>	

B-1	Preliminary Steps	
Version 1.0, dated April 2008		W/P Reference
1. Coordinate with the contracting officer for matters of particular interest or concern.		
2. Identify contractor's universe of DoD commercial T&M/LH contracts to determine:		
a. the number and dollar amount of DoD commercial T&M/LH contracts,		
b. the type of services provided, i.e., does the nature of the services result in higher risk to the Government; e.g., custodial services vs. highly technical services, and		
c. any special terms and conditions, i.e., review contract briefs.		

3. If the evidential matter to be obtained during the audit is dependent on computerized information systems, document on working paper (W/P) B the audit work performed that supports reliance on the computer-based evidential matter, e.g., trace labor distribution records to electronic timesheets or original timecards.	
4. Obtain a current Chart of Accounts with descriptions of charges which can be made to each account, (in lieu of a Chart of Accounts, a description of costs charged direct for each account category provided for in the contract is acceptable).	
5. In planning and performing the audit, consider fraud risk indicators specific to the audit being performed. The principal sources for the applicable fraud risk indicators are: Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html . • CAM Figure 4-7-3 Document in W/P B any identified fraud risk indicators and your response/actions to the identified risks (either individually or in combination). This should be done at the planning stage of the audit, as well as during the audit if risk indicators are disclosed (see CAM 4-702). If no risk indicators are identified, document this in W/P B.	
6. Conduct an entrance conference with responsible contractor personnel. Request the contractor to explain its procedures for monitoring subcontractor billings.	
7. Using the information obtained in the above steps, prepare an initial risk assessment to determine the scope of the audit (W/P B).	

C-1	Adequacy of Accounting System for Accumulating and Segregating Costs	
Version 1.0, dated April 2008		W/P Reference
To determine that the contractor's accounting system is adequate for accumulating and segregating costs, use the following steps (expand as necessary depending on the risk assessment).		
1. Verify that controls exist to preclude direct charging of indirect expenses.		
2. Direct Labor. Based on the significance of the labor billed, consider performing a labor floor check concurrently with this audit (E-1). Review the contractor's procedures (written or unwritten) for accumulating labor costs by performing the following audit steps:		

a. Document the understanding of the contractor's procedures for accumulating and billing labor hours, including subcontract hours. This includes the procedures for timekeeping and labor corrections/transfers. Verify that the contractor has procedures for ensuring that labor hours are billed in accordance with contract terms.	
b. Timekeeping system. Verify that labor is charged to intermediate and final cost objectives in accordance with the contractor's timekeeping procedures by selectively reviewing employees' original timecards (paper or electronic timecards).	
c. Labor distribution. Selectively test the contractor records that show the distribution of labor between jobs or contracts (e.g., trace timekeeping records to payroll records, and the distribution of labor records to and from the cost accumulation records).	
3. Direct Material, ODC and Subcontracts.	
a. Document the understanding of the contractor's procedures (written or unwritten) for accumulating and billing direct material, other direct cost (ODC), and subcontracts.	
b. Trace a sample of material, ODC and/or subcontract charges to supporting documentation (e.g., purchase order, receiving report, invoice, and payment) to verify that direct material, ODC and subcontracts are charged to the appropriate final cost objectives.	
c. Review and selectively test the contractor's procedures to verify that direct materials, ODC and subcontractors are required by the contracts to which they are billed..	
d. Verify that the contractor has procedures to ensure that the costs reimbursable under the materials, ODC and subcontracts provisions of the contract were not also included in the development of the hourly rates.	

D-1	Adequacy of Billing System for Preparing Reimbursement Claims	
	Version 1.0, dated April 2008	W/P Reference
	To determine that the contractor's billing system procedures for preparing vouchers are adequate (CAM 6-1006), use the following steps (expand as necessary depending on the risk assessment).	
	1. Limitation of costs. Verify that total contract expenditures against contract ceilings or any funding limitations are monitored.	
	2. Verify/test that (a) direct labor hours billed reconcile to the cost accounting records for both current and cumulative amounts and (b) direct labor has	

been billed at appropriate contract rates. Include testing of subcontract hours/subcontract rates and interdivisional effort to source documents.	
3. Verify that the contractor has procedures to ensure that employees charging direct labor, including subcontractors, meet the contractually required employee qualifications.	
4. For other than labor costs, verify that billings reconcile to the subsidiary job cost ledger or other accounting records for both current and cumulative amounts claimed.	
5. Verify the contractor has procedures to ensure that ODC billed is authorized by contract terms (listed by type in the contract) - FAR 52.212-4, Alternate I(i)(1)(ii)(D)(1).	
6. Verify indirect costs, if applicable, are billed at amounts specified in the contract by sampling current vouchers.	
7. Verify that the contractor has procedures to ensure that subcontractor and vendor costs are only included in billings if payment to the subcontractor or vendor will be made in accordance with the terms and condition of the subcontract or invoice and ordinarily within 30 days of the contractor's payment request to the Government.	

E-1	Adequacy of Contractor's Timekeeping Procedures - Floor Check Procedures	
Version 1.0, dated April 2008		W/P Reference
If labor costs are significant, consider performing a labor floor check concurrently with this audit, as follows:		
1. Obtain a list or roster of employees charging hours under DoD commercial T&M/LH contracts.		
2. Select employees to be floor checked.		
3. Gather appropriate background data on the selected employees, such as ID number, job classification/category, contractually required labor qualifications, nature of work performed by the employee, and his/her department or cost center prior to conducting the floor check.		
4. Prepare worksheets to use during the floor checks to help guide the questioning and facilitate the recording of the employee's responses. (See LBR - Floor Check Worksheet in "Other Audit Guidance" folder.)		
5. Obtain a plant layout and note the selected employees' locations.		
6. Floor check the employees selected.		
a. Identify each selected employee by verifying the employee's ID number and name to the control list or roster.		

b. Discuss the nature of the work being performed and observe the actual work performance to determine whether the employee is performing in the proper direct labor capacity (as specified in the contract) and whether the time is being charged correctly. If the work is technical in nature, consider requesting technical assistance.	
c. Discuss the employee's timekeeping procedures to determine compliance with internal controls.	
d. Compare employee responses with previous data gathered. If inconsistent, ask appropriate follow-up questions.	
7. For selected employees not available for the interview, attempt to perform a follow-up interview. If a follow-up interview is not practical, perform additional audit steps to verify employee existence. These steps may include an observation of the employee's work area, an evaluation of the employee's personnel file, and/or a follow-up telephone interview.	
8. Obtain prompt explanations concerning all questionable procedures observed. This may require discussions with employee's supervisor, contractor management, accounting, and other appropriate personnel.	
9. Reconcile the observations regarding the employees' labor charges with subsequent payroll and labor distribution records and follow-up on any discrepancies.	
10. Summarize the results of the labor floor check.	

A-1	Concluding Steps	
	Version 1.0, dated April 2008	W/P Reference
	1. Discuss results with supervisor.	
	2. Discuss findings and recommended corrective action with contractor representatives. Hold and document the exit conference.	
	3. Follow up and resolve open or partially completed items and summarize audit results.	
	4. Coordinate with contractor to ensure that appropriate action is taken to effect correction of noted deficiencies.	
	5. Update the permanent file, as appropriate.	
	6. Prepare draft report incorporating the contractor's comments and audit rejoinder.	

Version No. 1.0	Audit Report for Post Award Accounting System Audit at Contractors with DoD Commercial T&M/LH Contracts (17740)	April 2008
Reviewer's Approval and Date:		

	DEFENSE CONTRACT AUDIT AGENCY	
	AUDIT REPORT NO. [Office Organizational Code]–[Government Fiscal Year (4 digit)][Team Code][Five-Digit Activity Code][Last 3 digits of Assignment Number]	

[Date]

PREPARED FOR: [ACO, PCO, or Other]
 [ACO, PCO, or Other]
 [Contractor Name 2nd Line]
 [Contractor Name 3rd Line]
 ATTN: [Attention To]
 [Customer Address 1st Line] [Customer Address 2nd Line]
 [City of Customer], [State of Customer] [Zip Code of Customer] [Country of Customer]

PREPARED BY: DCAA [Office Name]
 [Office Address 1st Line]
 [Office Address 2nd Line]
 [City of Office], [State of Office] [Zip Code of Office]
 Telephone No. [Main Phone Number of Office]
 FAX No. [Fax Number of Office]
 E-mail Address [E-Mail of Office]

SUBJECT: [Title of Audit Assignment]

REFERENCES: *ACO: [Reference Number (Enabled if Demand)]*
Relevant Dates: (See Page 5)

CONTRACTOR: [Contractor Name 1st Line]
 [Contractor Name 2nd Line]
 [Contractor Name 3rd Line]
 [Contractor Address 1st Line]
 [Customer Address 2nd Line]
 [City of Contractor], [State of Contractor] [Zip Code of Contractor]
 [Country of Contractor]

REPORT RELEASE RESTRICTIONS: See Page 6

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SUBJECT OF AUDIT

As you requested on [*Request Date (Enabled if Demand-generally these assignments are self-initiated)*], we examined [Contractor Name 1st Line]'s ([Contractor Acronym]) accounting system as of [*insert date audit fieldwork was completed*] to determine whether it is adequate for accumulating costs under DoD commercial time-and-materials (T&M) and Labor-Hour (*if applicable*) contracts and whether the billing procedures are adequate for the preparation of interim public vouchers.

[Contractor Acronym] is responsible for establishing and maintaining an adequate accounting system for accumulating and billing costs under DoD commercial T&M/LH contracts. Our responsibility is to express an opinion on the adequacy of the accounting system based on our examination.

EXECUTIVE SUMMARY

[*If applicable (CAM 10-210.2), this section gives a brief overview of significant audit findings. Refer to 10-406 for examples. Below is an example of how the section may read when the system is inadequate in part.*]

The contractor's accounting system is inadequate in part. Our examination disclosed [*insert number of deficiencies*] significant deficiencies that are considered to be material weaknesses in [Contractor Acronym]'s accounting system that could result in [*describe the negative effect of the deficiencies*].

SIGNIFICANT ISSUES

- [*insert summary of significant issues/deficiencies*]
- [*if applicable*] [Contractor Acronym] agrees and is taking aggressive action to correct these deficiencies.

SCOPE OF AUDIT

[*Except for the qualifications discussed below (omit if there is no "Qualifications" section within the "Scope" paragraph)*], we conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- obtaining an understanding of internal control for accumulating and billing costs under DoD commercial T&M [*and/or LH, if applicable*] contracts;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used by the contractor; and

- evaluating the overall data and records presentation.

We evaluated the accounting system using the applicable requirements contained in the terms and conditions of the contract.

Our examination included determining if the accounting system provides for the following procedures:

- *direct labor hours and costs are appropriately identified, accumulated, and reported;*
- *direct labor costs are billed in accordance with the direct labor rates in the contract;*
- *subcontractor and vendor costs are paid in accordance with subcontract and invoice terms and conditions and ordinarily paid prior to the contractor's next payment request to the Government; and*
- *contract billings are in compliance with contract terms and provisions.*

Our examination was performed from [fieldwork starting date] to [fieldwork completion date].

We believe that our examination provides a reasonable basis for our opinion.

[Conclude the Scope section with the Inherent Limitations paragraph:]

Our examination did not include tests to determine whether internal control is in operation or operating effectively. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, accounting system internal control is subject to the risk that the internal control may become inadequate because of changes in conditions.

QUALIFICATIONS

[Any external factors that restrict or limit the scope of the audit should be clearly described within the scope of audit section under a separate heading entitled "Qualifications" (see 10-407e and 10-210.4). Internal decisions to limit the audit scope are not "qualifications." When necessary to avoid user misunderstanding, scope limitations should be briefly described within the scope of audit section.]

RESULTS OF AUDIT

In our opinion, [except for the (cite the qualification and the potential impact on the results)] [Contractor Acronym]'s accounting system is [adequate, inadequate, or inadequate in part] for accumulating and billing costs under DoD commercial T&M [and/or LH, if applicable] contracts.

Audit Report No. [Office Organizational Code]-[Government Fiscal Year (4 digit)][Team Code][Five-Digit Activity Code][Last 3 digits of Assignment Number]

[The remaining portion of this section, excluding the last paragraph, should summarize the conditions and recommendations found during the audit. Refer to 10-408.2(b) for additional information. Below is an example of how the paragraph may read when significant deficiencies are found.]

Our examination noted certain significant deficiencies that are considered to be material weaknesses in the design or operation of the accounting system. In our judgment, these deficiencies could adversely affect the organization's ability to initiate, authorize, record, process, and/or report costs in a manner that is consistent with applicable Government contract laws and regulations. These conditions are detailed in the "Statement of Condition(s) and Recommendation(s)" on page [xx] and summarized below:

[Below is an example of how the paragraph may read when the conditions found are not considered significant deficiencies, but correction would enhance the system.]

During the course of our examination, we also noted other matters involving the accounting system that we believe should be communicated to the management of [Contractor Acronym]. Although these conditions are not considered to be significant deficiencies, the system would be enhanced if they were corrected. These matters are detailed in the "Suggestions to Improve the System" appendix included on page [xx] of this report.

Our examination was limited to determining whether [Contractor Acronym]'s accounting system is adequate for accumulating and billing costs under DoD commercial T&M [*and/or LH, if applicable*] contracts. We did not perform a comprehensive examination of the contractor's overall accounting system and its related internal control. Accordingly, we express no opinion on [Contractor Acronym]'s system of internal control taken as a whole.

[Conclude the Results of Audit section of the report narrative with the following additional remarks, as appropriate.]

We discussed the results of our examination with [*Name and Title of contractor representative*] in an exit conference held on [*Date*]. [*If there are system deficiencies, summarize the contractor's reaction here.*] [*If the evaluation requires a Statement of Condition(s) and Recommendation(s) be furnished to the contractor, include the following statement.*] We provided a draft copy of the [*Results of Audit and Statement of Condition(s) and Recommendation(s)*] to the contractor's representative at the exit conference. [*When the contractor provides a formal, written response, it should be referenced within the Results of Audit section and included as an appendix to the report. Put any rebuttals in the "Auditor's Response" portion of the explanatory notes and include the following statement.*] The complete text of the contractor's response appears as Appendix [x].

[Use the guidelines provided in 10-210.5e(2) to prepare any other additional remarks.]

[STATEMENT OF CONDITION(S) AND RECOMMENDATION(S)]

[The statements of condition(s) and recommendation(s) are an integral part of the results of audit and should follow the narrative described in the Results of Audit. Alternatively, they may be included in attached appendixes. The presentation should follow the six-element outline as noted below to present a logical statement of condition(s) and recommendation(s). The two main subheadings should be "Condition" and "Recommendation." Although the six elements of an audit finding should not be addressed under separate subheadings, they must be included as part of the statement of condition to present a logical, convincing case. Refer to 10-409.

(1) Condition - This attribute identifies the nature of the deficiency, finding, or unsatisfactory condition by disclosing how things are.

(2) Criterion - This attribute establishes the legitimacy of the finding disclosing how things should be.

(3) Cause - This attribute gets to the root of the problem by answering the question, "Why did it happen?"

(4) Fact - Examples should be included to demonstrate to the contracting officials and contractor that the reported conditions do exist.

(5) Effect - This attribute convinces the reader that the condition is significant by answering the question, "What happened as a result of this condition? How was the Government harmed?"

(6) Recommendation - This attribute suggests remedial action answering the question, "What must be done to eliminate the cause of the condition?" If the relationship between the cause and the condition is clear and logical, the recommended action(s) will most likely be feasible and appropriately directed.]

Audit Report No. [Office Organizational Code]-[Government Fiscal Year (4 digit)][Team Code][Five-Digit Activity Code][Last 3 digits of Assignment Number]

DCAA PERSONNEL

Primary contact(s) regarding this audit:	<u>Telephone No.</u>
[Auditor's Name], Auditor	[Auditor's Phone Number]
[Supervisor's Name], Supervisory Auditor	[Supervisor's Phone Number]

Other contact(s) regarding this audit report:	
[FAO Manager's Name], Branch Manager	[FAO Manager's Phone Number]
[FLA Name], Financial Liaison Advisor	[Phone Number of FLA]

	<u>FAX No.</u>
[Office Name]	[Fax Number of Office]
[FLA Name], Financial Liaison Advisor	[Fax Number of FLA]

	<u>E-mail Address</u>
[Office Name]	[E-Mail of Office]

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RELEVANT DATES

[Use this section in customer requested assignments. These should include, at a minimum, the dates of ACO and PCO requests and the dates of any extensions. The format should facilitate computation of elapsed days (see 10-211 and Fig. 10-2-3).]

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[Title]
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[Contractor Name 1st Line]	[Contractor Email Address]
[Contractor Name 2nd Line]	
[Contractor Name 3rd Line]	
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[City of FLA], [State of FLA] [Zip Code of FLA] [Country of FLA]	[Phone Number of FLA]

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2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act request for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.

Audit Report No. [Office Organizational Code]-[**Government Fiscal Year (4 digit)**][**Team Code**][**Five-Digit Activity Code**][**Last 3 digits of Assignment Number**]

3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

Master Document – Audit Program

Activity Code 17910		Contract Audit Closing Statements for DoD Commercial Time-and-Materials (T&M)/Labor-Hour (LH) Contracts
Version 1.0, dated April 2008		
B-1	Planning Considerations	
Purpose and Scope		
To determine the amounts properly payable under the contractor’s DoD Commercial T&M and LH contracts/subcontracts. The acceptability of final costs under a commercial T&M/LH contract is determined based on the terms and conditions of the contract and are not subject to the provisions in FAR Part 31.2 or Cost Accounting Standards.		
Reference		
FAR 52.212-4 and Alternate I - <i>Contract Terms and Conditions – Commercial Items</i>		

B-1	Preliminary Steps	W/P Reference
Version 1.0, dated April 2008		
	1. Evaluate the audit request, if applicable, for scope limitations or special requirements.	
	2. Review the permanent files and prior related audits and make any needed adjustments to this audit program based on this review	
	3. Obtain and document (or reference) an understanding of the contractor’s controls for accumulating and billing amounts under DoD commercial T&M and LH contracts. Review the Internal Control Audit Planning Summaries for related contractor systems (or the Internal Control Questionnaire, if applicable) for any internal control concerns affecting the scope of this audit.	
	4. If the evidential matter to be obtained during the audit is dependent on computerized information systems, document on W/P B the audit work performed that supports reliance on the computer-based evidential matter, e.g., trace labor distribution records to electronic timesheets or original timecards.	

Master Document – Audit Program

<p>5. In planning and performing the audit, consider fraud risk indicators specific to the audit being performed. The principal sources for the applicable fraud risk indicators are:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html. • CAM Figure 4-7-3 <p>Document in W/P B any identified fraud risk indicators and your response/actions to the identified risks (either individually or in combination). This should be done at the planning stage of the audit, as well as during the audit if risk indicators are disclosed (see CAM 4-702). If no risk indicators are identified, document this in W/P B.</p>	
<p>6. Conduct an entrance conference with responsible contractor personnel.</p>	
<p>7. Using the information obtained in the above steps, prepare an initial risk assessment to determine the scope of the audit (W/P B).</p>	

C-1	Evaluation of Final Voucher and Closing Documents	W/P Reference
Version 1.0, dated April 2008		
1.	Upon receipt of contractor’s final voucher and closing documents ascertain that the closing documents are properly prepared:	
a.	Final voucher is marked as “Final” or “Completion.”	
b.	The amount on the final voucher is supported by details of the properly payable amounts.	
c.	Final voucher cumulative amount is consistent with the amount on the release document.	
d.	Cumulative claimed amounts are within the contract ceiling.	
2.	Review the contract brief (CAM 3-202) or copy of the contract for special terms and conditions requiring compliance testing during this audit. Adjust the audit program accordingly.	
3.	Reconcile contractor’s claimed hours, material costs, and other direct cost (ODC) to contractor’s job cost ledger or other accounting records. Include subcontract and interdivisional effort.	
4.	Verify claimed hourly rates to the contractual labor rates.	
5.	Verify that the total labor hours by category multiplied by the contractual hourly billing rate equals the total labor amounts claimed by category.	

Master Document – Audit Program

6. Selectively trace billed labor hours to supporting labor distributions and timekeeping records. Include testing of subcontract/interdivisional hours to source documents. The extent of this effort should be based on the results of any floor checks or related audits performed at this contractor.	
7. Selectively verify that employee hours billed meet the labor qualification requirements in the contract - FAR 52.212-4, Alternate I(i)(1)(i)(B).	
8. Selectively verify that material, subcontract and ODC are supported by contractor payment documentation (e.g., invoices, purchase agreements). FAR 52.212-4, Alternate I(e)(1)(iii), defines material costs as including subcontracts for supplies or services for which there is not a labor category specified in the contract.	
9. Verify that any ODC claimed has been authorized by contract terms (i.e., listed by type in the contract) - FAR 52.212-4, Alternate I(i)(1)(ii)(D)(1).	
10. Verify that any indirect cost is specified by amount in the contract - FAR 52.212-4, Alternate I(i)(1)(ii)(D)(2).	

A-1	Concluding Steps	W/P Reference
Version 1.0, dated April 2008		
	1. Prepare draft audit report.	
	2. If over-recovery of cost exists, either	
	a. request copy of check which refunded overpayment; or	
	b. request that a check and copy of final voucher be furnished directly to the Paying Office.	
	3. Update permanent file.	

Version No. 1.0	Contract Audit Closing Statement Audit Report for DoD Commercial Time-and-Materials (T&M)/Labor-Hour (LH) Contracts (17910)	April 2008
Reviewer's Approval and Date:		



DEFENSE CONTRACT AUDIT AGENCY



AUDIT REPORT NO. [Office Organizational Code]–[Government Fiscal Year (4 digit)][Team Code][Five-Digit Activity Code][Last 3 digits of Assignment Number]

[date]

PREPARED FOR: [ACO, PCO, or Other]
 [Customer Name 1st Line]
 [Customer Name 2nd Line]
 [Customer Name 3rd Line]
 ATTN: [Attention To]
 [Customer Address 1st Line]

PREPARED BY: DCAA [Office Name]
 [Office Address 1st Line]
 [Office Address 2nd Line]
 [City of Office]
 Telephone No. [Main Phone Number of Office]
 FAX No. [Fax Number of Office]
 E-mail Address [E-Mail of Office]

SUBJECT: [Title of Audit Assignment]

REFERENCES: DCN No. [if applicable]: [Reference Number (Enabled if Demand)]

Relevant Dates: (See Page 5)

CONTRACTOR: [Contractor Name 1st Line]
 [Contractor Name 2nd Line]
 [Contractor Name 3rd Line]

REPORT RELEASE RESTRICTIONS: See Page 6

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Report No. [Office Organizational Code]-[Government Fiscal Year (4 digit)][Team Code][Five-Digit Activity Code][Last 3 digits of Assignment Number]

SUBJECT OF AUDIT

[If a prime contract:]

We examined final voucher no. *[Final Voucher Number]* issued under contract no. *[Prime Contract Number]*. The purpose of the examination was to determine the properly payable amount under the terms and conditions of the DoD commercial T&M *[or Labor-Hour]* contract.

[If the contractor submits the final voucher and closing documents directly to the ACO and a single report is being used for closing multiple contracts or subcontracts:]

We examined the final vouchers issued under the contracts listed on the schedule of contracts *[and/or subcontracts]* in the Appendix. The purpose of the examination was to determine the properly payable amount under the terms and conditions of each of the DoD commercial T&M *[or Labor-Hour]* contracts or subcontracts identified in the Appendix.

[If a subcontract:]

We examined final voucher no. *[Final Voucher Number]* issued under subcontract no. *[Subcontract Number]* issued under prime contract no. *[Prime Contract Number]*. The purpose of the examination was to determine the properly payable amount under the DoD commercial T&M *[or Labor-Hour]* subcontract.

[If audit was requested:]

As requested in your *[Request Date (Enabled if Demand)]* *[memorandum or letter]*, reference *[Reference Number (Enabled if Demand)]*, we examined final voucher no. *[Final Voucher Number]* issued under *[contract no. [Prime Contract Number]]* *[subcontract no. [Subcontract Number]* issued under prime contract no. *[Prime Contract Number]*. The purpose of the examination was to determine the properly payable amount under the terms and conditions of the DoD commercial T&M *[or Labor-Hour]* *[contract/subcontract]*.

This T&M *[Labor-Hour]* contract provided for *[provided for (Product or Service)]*. Work commenced *[Period of Performance - Start Date]* and was completed on *[Period of Performance - Completion Date]*.

The submission is the responsibility of *[Contractor Name 1st Line]* (*[Contractor Acronym]*). Our responsibility is to express an opinion on the submission based on our examination.

EXECUTIVE SUMMARY

[If applicable (CAM 10-210.2), this section gives a brief overview of the findings. It briefly describes the findings and the significant issues.]

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- obtaining an understanding of the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance [*and quantifying the results of a Government technical evaluation*].

[If the scope of examination was limited by external factors beyond the auditor's control, describe the limitation in a Qualifications paragraph (see CAM 10-210.4).]

We evaluated the claimed costs using the applicable requirements contained in the terms and conditions of the contract.

[The next paragraph should briefly describe the status of the contractor's accounting and billing systems for accumulating and billing costs under DoD commercial T&M/LH contracts; any relevant outstanding systems deficiencies; and the assessment of control risk (CAM 10-210.3).]

[Use the following paragraph when this audit is completed at a major contractor or a large nonmajor contractor where ICAPS are completed.]

[*Contractor Acronym*]'s accounting and billing systems and related internal controls are considered [*adequate, inadequate, or inadequate in part*] for accumulating and billing costs under DoD commercial T&M [*or Labor-Hour*] contracts. [*If there are system deficiencies that impact amounts billed on DoD commercial T&M/LH contracts, provide a brief description of the deficiencies.*]. The scope of our examination reflects our assessment of control risk and includes tests that we believe provide a reasonable basis for our opinion.

[Use the following paragraph when this audit is completed at a nonmajor contractor where a post award accounting system audit has been completed.]

Audit Report No. [Office Organizational Code]-[Government Fiscal Year (4 digit)][Team Code][Five-Digit Activity Code][Last 3 digits of Assignment Number]

[*Contractor Acronym*]'s accounting and billing systems are considered [*adequate, inadequate, or inadequate in part*] for accumulating and billing costs under DoD commercial T&M [*or Labor Hour*] contracts. [*If there are system deficiencies that impact amounts billed on DoD commercial T&M/LH contracts, provide a brief description of the deficiencies.*]. Our assessment of control risk reflects that we have not specifically tested the effectiveness of [*insert contractor's name*]'s systems and related internal controls. The scope of our examination reflects our assessment of control risk and includes tests that we believe provide a reasonable basis for our opinion.

RESULTS OF AUDIT

[If the final voucher costs agree with the audited costs:]

[Except as discussed in the report qualification], I[i]n our opinion the total claimed amount of \$[amount] for FYs [] is considered properly payable under the contract and are therefore reimbursable.

[If the contractor submits the final voucher and closing documents directly to the ACO and a single report is being used for closing multiple contracts or subcontracts:]

[Except as discussed in the report qualification], I[i]n our opinion the total claimed amounts noted on the schedule of contracts [and/or subcontracts] in the Appendix are considered properly payable under each contract and are therefore reimbursable.

[If the final voucher amounts are in excess of the contract limitations:]

[Except as discussed in the report qualification], I[i]n our opinion the total amount properly payable under the contract [task/delivery order] and therefore reimbursable is \$[amount properly payable under the contract (not to exceed contract ceiling)]. However, the total claimed amount of \$[final voucher amount] on the contractor's final voucher includes billed amounts in excess of the contract ceiling. We have determined that \$[insert amount of excess considered properly payable or a statement that none of this excess is properly payable] represents amounts which are otherwise properly payable, but are in excess of the contract ceiling.

[If the contractor submits the final voucher and closing documents directly to the ACO:]

[Contractor name] submitted final voucher no. [Final Voucher Number] and the closing documents directly to your office; therefore, they are not attached to this report.

[If an exit conference was conducted, follow the guidelines in 10-210.5d and include a statement that might read as follows:]

We discussed the results of this examination with [name and title of contractor representative] in an exit conference held on [date].

[If an exit conference was not conducted, include a statement explaining the circumstances. The example might read as follows:]

An exit conference was not conducted because [provide reason].

Audit Report No. [Office Organizational Code]-[Government Fiscal Year (4 digit)][Team Code][Five-Digit Activity Code][Last 3 digits of Assignment Number]

DCAA PERSONNEL

	<u>Telephone No.</u>
Primary contact(s) regarding this audit report: [Auditor's Name], Auditor [Supervisor's Name], Supervisory Auditor	[Auditor's Phone Number] [Supervisor's Phone Number]
Other contact(s) regarding this audit report: [FAO Manager's Name], Branch Manager [FLA Name], Financial Liaison Advisor	[FAO Manager's Phone Number] [Phone Number of FLA]
	<u>FAX No.</u>
[Office Name] [FLA Name], Financial Liaison Advisor	[Fax Number of Office] [Fax Number of FLA]
	<u>E-mail Address</u>
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[FAO Manager's Name]
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