



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

IN REPLY REFER TO

PPD 730.5.27.1

October 8, 2008
08-PPD-034(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS**

SUBJECT: Audit Guidance for Annual Testing of Contractor Eligibility for Direct Bill Program

A new shell Memorandum for Record (MFR) for the Annual Testing of Contractor Eligibility for Direct Bill Program (formerly called Annual Testing of Paid Vouchers) assignments (DMIS Activity Code 11015) has been developed and is currently available within APPS (see Enclosure 1). The name of the audit program has been changed to more appropriately reflect the objective of this review, which is to ascertain whether continued reliance can be placed on the contractor's internal controls for direct billing purposes (CAM 6-1007.6). The audit program has been revised to consolidate, remove and/or clarify audit steps to improve its effectiveness (see Enclosure 2).

As part of this assignment, auditors should ensure a sufficient number of paid vouchers are reviewed to provide reasonable assurance that the contractor's procedures continue to be adequate. Auditors should continue to tailor the MFR and audit program, as necessary, based on the results of the testing performed. We believe that the new shell MFR will result in consistent documentation of the results of the annual testing.

If FAO personnel have any questions, they should contact regional personnel. Regional personnel with any questions should contact Policy Programs Division, at (703)-767-2270 or e-mail at DCAA-PPD@dcaa.mil.

/Signed/

Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosures:
a/s

DISTRIBUTION: C

[Reference Number]

[Date]

MEMORANDUM FOR RECORD

SUBJECT: Annual Testing of Contractor Eligibility for Direct Bill Program for Fiscal Year
(FY) [Insert FY]
[Contractor Name]

As part of our comprehensive audit of [Contractor's Name] [Contractor Acronym], we tested [Contractor Acronym]'s paid vouchers to determine if the contractor's voucher preparation procedures are adequate for the contractor's continued participation in the direct billing program. The testing was based on a review of selected paid vouchers submitted directly to Government paying offices from [Date] through [Date] and included the following steps:

- testing the contractor's procedures for preparation of vouchers on Government flexibly-priced contracts (including Time-and-Materials and Labor-Hour contracts)
- verifying that the contractor is current in its submission of incurred cost proposals and final vouchers in accordance with the contract terms (*refer to CAM 6-100-7a*).

The scope of the work performed does not constitute an audit or attestation engagement under generally accepted government auditing standards.

[Select one of the following four paragraphs based on the results of the performance of the steps above:]

[If the performance of the steps disclosed that the contractor's voucher preparation procedures are adequate and the contractor's incurred cost proposals and final vouchers are submitted in accordance with contract terms, include a statement that might read as follows:]

Based on our performance of these steps, continued reliance can be placed on the contractor's procedures for the preparation of interim vouchers. In addition, the contractor's incurred cost proposals and final vouchers are submitted timely in accordance with contract terms. Therefore, the contractor has met the criteria for continued participation in the direct billing program.

[If the performance of the steps disclosed that the contractor's voucher preparation procedures cannot be relied upon, but the contractor's incurred cost proposals and final vouchers are submitted timely, follow the guidelines in CAM 6-1007.7, Rescinding the Authority to Direct Bill, and include a statement that might read as follows:]

Based on our performance of these steps, the contractor timely submits incurred cost proposals and final vouchers in accordance with contract terms. However, reliance cannot be placed on the contractor's procedures for the preparation of interim vouchers. A flash billing system [or other applicable system] report will be issued under [assignment number]. Accordingly, the contractor's authorization to participate in the direct billing program will be

rescinded. A letter will be issued to the contractor, administrative contracting officer, and the paying office giving notice of the rescission of [Contractor Acronym]'s direct bill authority. A summary of the conditions found and reported in the flash report are included as Enclosure 1.

[If the performance of the steps disclosed that the contractor does not submit incurred cost proposals or final vouchers timely, but the contractor's voucher preparation procedures can be relied upon, follow the guideline in CAM 6-1007.7, Rescinding the Authority to Direct Bill, and include a statement that might read as follows:]

Based on our performance of these steps, continued reliance can be placed on the contractor's procedures for the preparation of interim vouchers. However, the contractor does not timely submit its [incurred cost proposals and/or final vouchers] in compliance with FAR 52.216-7. A flash [accounting, billing or other applicable system] report will be issued under [assignment number]. Accordingly, the contractor's authorization to participate in the direct billing program will be rescinded. A letter will be issued to the contractor, administrative contracting officer, and the paying office giving notice of the rescission of [Contractor Acronym]'s direct bill authority.

[If the performance of the steps disclosed that the contractor's voucher preparation procedures cannot be relied upon and the contractor does not submit incurred cost proposals or final vouchers timely, follow the guideline in CAM 6-1007.7, Rescinding the Authority to Direct Bill, and include a statement that might read as follows:]

Based on our performance of these steps, reliance cannot be placed on the contractor's procedures for the preparation of interim vouchers. Further, the contractor does not timely submit its [incurred cost proposals and/or final vouchers] in compliance with FAR 52.216-7. A flash billing system [or other applicable system] report will be issued under [assignment number]. Accordingly, the contractor's authorization to participate in the direct billing program will be rescinded. A letter will be issued to the contractor, administrative contracting officer, and the paying office giving notice of the rescission of [Contractor Acronym]'s direct bill authority. A summary of the conditions found and reported in the flash report are included as Enclosure 1.

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

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

[Insert name]
[Insert title]