



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

IN REPLY REFER TO

PAS 730.3.B.2.4

August 3, 2009
09-PAS-015(R)

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

SUBJECT: Audit Guidance on Evaluation of Final Vouchers

SUMMARY

Effective immediately, new assignments for the evaluation of final vouchers will be performed using the new program included as Enclosure 1. A memorandum will be issued at the completion of the evaluation (Enclosure 2) in lieu of an audit report. This guidance also applies to evaluations of final vouchers where quick closeout rates are used. The contract closing memorandum will clearly state that the scope of the work performed does not constitute an audit or attestation engagement under GAGAS.

The results of all Activity Code 15400 assignments that are in process as of the date of this guidance should also be reported using the memorandum at Enclosure 2.

BACKGROUND

As a result of the DoD Inspector General's (DoDIG) last review of DCAA's quality control system, the DoDIG raised concerns regarding the performance of Contract Audit Closing Statements (CACS) as an examination when, in the DoDIG's opinion, the assignment is only a summary or restatement of prior audit work. Additionally, the DoDIG noted that an audit opinion may not be necessary as contracting officers currently close contracts using cumulative allowable cost worksheets (CACWS) without an audit report. We re-evaluated the audit program steps and the reporting procedures for CACS and CACS using quick closeout procedures. Based on our analysis, we concluded that closeout procedures can be performed as a nonaudit service rather than as an attestation engagement without impairing independence under GAGAS. We also concluded, based on our analysis and coordination with DCMA, that the results of such procedures are sufficient for the contracting officer to close the contract.

PAS 730.3.B.2.4

SUBJECT: Audit Guidance on Evaluation of Final Vouchers

GUIDANCE

Effective immediately, new assignments for the evaluation of final vouchers (formerly referred to as Contract Audit Closing Statements (CACS) and Contract Audit Closing Statements Using Quick Closeout Procedures) will be performed as nonaudit services rather than attestation engagements under Generally Accepted Government Auditing Standards (GAGAS). Evaluations of final vouchers (including where quick closeout procedures are used) will be performed under Activity Code 15400 using the new program included as Enclosure 1, with the issuance of a memorandum upon completion (Enclosure 2). This memorandum will clearly state that the scope of the work performed does not constitute an audit or attestation engagement under GAGAS.

The results of all Activity Code 15400 assignments that are in process as of the date of this guidance should also be reported using the memorandum at Enclosure 2. Since the steps in the previous audit programs for CACS and CACS using quick closeout procedures are generally consistent with the revised program, there is no need to replace the program or perform additional steps. The field work can be completed under the existing audit program with the issuance of the memorandum upon completion.

For any Activity Code 15400 assignments set up as of the date of this guidance, APPS will deliver the new code 15400 program and memorandum shell. The program and memorandum shell will also be available on the DCAA intranet. We are in the process of revising the applicable CAM sections.

This audit guidance was coordinated with DCMA.

FAO personnel should direct questions to their regional points of contact and regional personnel should direct any questions to Auditing Standards Division, at (703) 767-3274 or by e-mail: DCAA-PAS@dcaa.mil.

/s/ David E. Johnson
/for/ Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosures: 2
a/s

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Activity code 15400		Evaluation of Final Vouchers
Version 2.X, dated [insert date]		
B-1	Planning Considerations	
Purpose and Scope		
<p>1. To provide a standard program for performing an evaluation of a final voucher to determine the costs and fee (or profit) payable for closing of cost reimbursement, labor hour, T&M and FPI contracts/subcontracts.</p>		
<p>2. This program is based upon the assumption that the final voucher has been prepared based on:</p> <ul style="list-style-type: none">• all costs incurred on the (sub)contract to be closed have been audited and cost issues finalized, or• all costs incurred on the (sub)contract to be closed have not been audited and/or settled and the contracting officer has determined that the contract meets the eligibility criteria in FAR 42.708, Quick-closeout procedures, or• all costs incurred on the (sub)contract to be closed have not been audited and/or settled, however, the contracting officer has determined to use a FAR 42.708 deviation to close the contract (e.g., DCMA’s Quick Closeout Class Deviation). The DCMA Quick Closeout Deviation waives the FAR 42.708 thresholds by authorizing contracting officers to close specific contracts prior to the establishment of final indirect cost rates, regardless of dollar value or percent of unsettled indirect costs as long as DCAA has completed the applicable incurred cost audits.		
<p>3. If a complete Cumulative Allowable Cost Worksheet (CACWS) has been prepared, which includes this contract and covers the entire period of (sub)contract performance, coordinate with the contracting officer on the need for an evaluation of the final voucher. If it is determined that an evaluation is not necessary, forward the CACWS and closing documents to the ACO by transmittal memorandum. Discontinue any further effort unless specifically requested by the ACO.</p>		

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References
1. CAM 10-900 - Audit Reports on Contract Audit Closing Statements, Other Contract Closings, and Price Redeterminations.
2. CAM 6-1009 - Processing of Completion Vouchers
3. CAM 6-1010 - Quick Closeout Procedures
4. FAR 52.16-7 - Allowable Cost and Payment
5. FAR 42.708 - Quick Closeout Procedures

B-1	Preliminary Steps	WP Reference
Version 2.X, dated [insert date]		
1.	Perform the following steps to determine if the closing documents are properly prepared (if not properly prepared, return the final voucher to the contractor and notify the ACO in a memorandum):	
	a. SF 1034 is marked as “Final”.	
	b. Final voucher cumulative amount is consistent with the amount on the release document.	
	c. The amount on the SF 1034 is supported by the SF 1035 and that the SF 1035 contains allowable amounts by FY.	
2.	Check the permanent file for the following conditions which, if applicable, must be discussed with the contracting officer. Consider recommending that the contracting officer postpone closing the contract until the issues are resolved.	
	a. Any unresolved CAS noncompliance issues or accounting practice changes affecting this (sub)contract.	
	b. Any unsettled disallowances, outstanding subcontract legal actions, open insurance claims, defective pricing issues, ASBCA cases, or other unresolved items affecting this (sub)contract.	
3.	If the contracting officer intends to use FAR 42.708, Quick closeout procedures, ensure that the contracting officer has either determined that the contract meets the eligibility criteria in FAR 42.708, or has waived the eligibility criteria at FAR 42.708 using a class deviation (e.g., DCMA’s Quick Closeout Class Deviation).	
	a. Auditors must obtain a copy of the agreement (or other document) between the Government and the contractor that documents 1) the contracting officer’s determination of either FAR 42.708 eligibility	

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<p>or waiver from the eligibility criteria, and 2) the negotiated quick closeout rates to be used. If no such agreement exists, the auditor should discontinue any further effort, return the final voucher to the contractor, and notify the ACO in a memorandum.</p>	
<p>b. If the criteria at FAR 42.708 is waived using a class deviation, auditors need to ensure that the contract meets the requirements for a waiver set forth in the deviation (e.g., DCMA’s deviation requires that DCAA audits be complete for all years involved). If the criteria for the waiver is not met, the auditor should discontinue any further effort, return the final voucher to the contractor, and notify the ACO in a memorandum.</p>	
<p>4. Determine if all applicable assist audits have been performed. If required subcontract assist audits covering the entire period of subcontract period of performance are not completed, discontinue any further effort, return the final voucher to the contractor and notify the ACO in a memorandum, unless using quick-closeout procedures.</p>	
<p>5. If the original copy of the final voucher and accompanying documents are provided directly to DCAA, promptly submit them to the ACO. This will permit the ACO to expedite settlement procedures.</p>	
<p>6. Review the contract brief or copy of the contract and latest modifications. Document any special provisions (e.g., indirect rate ceilings, LOE hours, labor categories, contract limitations, FCCOM or profit/fee provisions) and add any additional steps to test compliance with these provisions, if not already covered in the detailed steps.</p>	
<p>7. Conduct an entrance conference with responsible contractor personnel, if necessary.</p>	

C-1	Detailed Steps	WP Reference
Version 2.X, dated [insert date]		
1.	For fiscal years where audits are complete and settled: <ul style="list-style-type: none"> a. Reconcile the claimed direct costs by year to annual audit files or audited contractor records and verify that questioned direct costs have been excluded from the final voucher. b. Verify that subcontract amounts claimed under the prime contract do not exceed amounts in the assist audit reports or subcontractor cumulative allowable cost worksheets. c. Verify that the lesser of the final indirect rates or contract ceiling rates have been applied to appropriate bases. 	
2.	If FAR 42.708, Quick closeout procedures are being utilized, perform these additional steps for the fiscal years where the costs have not	

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been settled:	
a. For fiscal years where both audits and settlements are not complete: (1) Reconcile the claimed direct labor, material, and other direct costs to contractor year-end records and document the specific records used.	
(2) For a T&M Contract: a) Reconcile the claimed labor hours by labor category to the lesser of labor hours in the contractor year-end records (be sure to document the specific records used) or contractual limits. b) Reconcile claimed labor rates by labor category to labor rates in the contract brief or contract and latest modification.	
b. If audits are complete but years are not settled, reconcile claimed direct labor, material, and other costs by year to annual audit files or audited contractor records and verify that questioned direct costs have been excluded from the final voucher.	
c. Verify that the negotiated quick closeout indirect rates have been applied to appropriate bases.	
Steps 3 through 8 should be performed, if applicable, for all evaluations regardless of whether quick closeout procedures are used.	
3. Perform a math check of the computations in the final voucher and note any math errors.	
4. Compare the period of performance per the contract brief or contract and latest modification to the period of performance claimed per the final voucher, and note any amounts claimed outside the contract period of performance.	
5. For cost sharing contracts, determine if the claimed cost sharing reduction has been calculated in accordance with the contract cost sharing provisions.	
6. Determine that the total fee billed has been calculated in accordance with contractual fee provisions (i.e., fixed fee, award fee, incentive fee).	
7. For contracts with Level of Effort (LOE) clauses, determine if labor hours by category meet the required LOE per the contract and latest modifications. If the LOE requirements are not met, the memo will note that the fee requires adjustment.	
8. Verify that the total amount claimed does not exceed the lesser of the total allowable cost (based on the steps performed above) and fee or	

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funding limitation per the contract brief or contract and latest modification.	
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A-1	Concluding Steps	WP Reference
	Version 2.X, dated [insert date]	
	1. Prepare summary of the final voucher evaluation results by cost element for supervisory review.	
	2. Prepare the draft memorandum to the ACO to report the final voucher costs and fee (profit) payable for closing the contract.	
	3. If the final voucher reflects an over-recovery of costs, either:	
	a. Request a copy of the check that refunded the overpayment; or	
	b. Request that a check and a copy of the final voucher be furnished directly to the Paying Office.	
	4. Conduct an exit conference and provide the findings to the contractor.	
	5. Update permanent file.	

MEMORANDUM FOR ADMINISTRATIVE CONTRACTING OFFICER

SUBJECT: Evaluation of Final Voucher No. [number] under Contract No. [number] through Modification No. [number] for [Contractor Name, Address]

We evaluated final voucher no. [Final Voucher Number] issued under contract no. [Prime Contract Number] through modification no. [Modification Number]. The purpose of the evaluation was to determine the cost [and fee (profit, if FPI or FPR)] payable under the contract based on our previous audits of the costs incurred under this contract and additional steps performed to determine compliance with contract limitations and other special contract terms. This [Contract Type] contract provided for [Product or Service]. Work commenced [Period of Performance - Start Date] and was completed on [Period of Performance - Completion Date].

[If quick closeout procedures were used for any years during the contracts period of performance, use the following language modified as needed.]

We evaluated final voucher no. [Final Voucher Number] issued under contract no. [Prime Contract Number] through modification no. [Modification Number]. The purpose of the evaluation for fiscal years [list fiscal years audited and settled] was to determine the cost [and fee (profit, if FPI or FPR)] payable under the contract based on our previous audits of the costs incurred under this contract and additional steps performed to determine compliance with contract limitations and other special contract terms. The purpose of the evaluation for fiscal years [list years where either audits are not complete, or audits are complete but not settled] was to apply quick closeout procedures in accordance with FAR 42.708, Quick closeout procedures. This [Contract Type] contract provided for [Product or Service]. Work commenced [Period of Performance - Start Date] and was completed on [Period of Performance - Completion Date].

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

[If audits of all years are complete and settled and there are no findings, use the following paragraph.]

Based on our evaluation, the total claimed costs of \$[amount] for FYs [period of performance] represents costs that are payable under contract no. [Prime Contract Number, Task/Delivery Order Number] through modification no. [Modification Number].

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Auditor:	
Date:	

SUBJECT: Evaluation of Final Voucher No. [number] under Contract No. [number] through Modification No. [number] for [Contractor Name, Address]

[If audits of all years are complete and settled and there are findings (e.g., costs in excess of contract limitations), use the following paragraph. It should be modified for other types of findings.]

Based on our evaluation, the total claimed costs of \$[amount] for FYs [period of performance] represents costs that are payable under contract no. [Prime Contract Number, Task/Delivery Order Number] through modification no. [Modification Number]. However, the contractor's final voucher includes \$[insert amount of excess] in additional costs that are in excess of contract limitations but are otherwise allowable.

[Quick Closeout - If all audits are complete but some years are not settled and FAR 42.708 quick closeout procedures were used, use the following paragraph. Modify as needed for findings (e.g., costs in excess of contract limitations) using example above.]

The costs of \$[amount] claimed on the subject contract represent amounts incurred during FYs [period of performance]. Of this amount, \$[amount] was incurred during FYs [fiscal years audited and settled]. The annual audit and settlement of incurred cost for these years are completed. The remaining claimed costs of \$[amount] were incurred during FYs [fiscal years audited but not settled]. The annual audit(s) of incurred costs for these years are completed; however, the settlement is not complete. The contracting officer has determined that the subject contract is eligible for application of quick closeout procedures and has negotiated quick closeout rates in accordance with FAR 42.708, Quick closeout procedures. Based on our evaluation, the claimed costs of \$[amount] for FYs [period of performance] represents costs that are payable under contract no. [Prime Contract Number, Task/Delivery Order Number] through modification no. [Modification Number].

[Quick Closeout - If some or all audits are not complete for the contract period of performance and FAR 42.708 quick closeout procedures were used, use the following paragraph. Modify as needed for findings (e.g., costs in excess of contract limitations), but do not include the statement that the costs are otherwise allowable.]

The claimed costs of \$[amount] represent amounts incurred during FYs [period of performance]. Of this amount, \$[amount] was incurred during FYs [fiscal years audited and settled]. The annual audit and settlement of incurred costs for these years are completed. Based on our evaluation, the claimed costs of \$[amount] for FYs [fiscal years audited and settled] represent costs that are payable under contract no. [Prime Contract Number, Task/Delivery Order Number] through modification no. [Modification Number].

The remaining claimed costs of \$[amount] incurred during FYs [fiscal years not audited], of which \$[amount] is direct cost and \$[amount] is indirect cost, have not been examined by us and are subject to contracting officer determination. The contracting officer has determined that the subject contract is eligible for application of quick closeout procedures and has negotiated

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Auditor:	
Date:	

SUBJECT: Evaluation of Final Voucher No. [number] under Contract No. [number] through Modification No. [number] for [Contractor Name, Address]

quick closeout rates in accordance with FAR 42.708, Quick closeout procedures. The claimed direct costs for FYs [fiscal years not audited] have been verified to [Contractor Acronym]'s accounting records and the FYs [fiscal years not audited] claimed indirect costs are based on the application of the negotiated quick closeout rates to the recorded base amounts.

The total fee [or profit, if FPI or FPR] payable to [Contractor Acronym], as determined under the provision of the contract, is \$[amount]

[If a level of effort contract:]

The contract provisions require that [number] direct labor hours be incurred in the performance of the contract requirements. The actual direct labor hours incurred are [number]. The fee [does not require/requires] adjustment. [If the fee requires adjustment the memo should provide sufficient data to allow the contracting officer to determine the allowable fee.]

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

[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.

Upon request, we will provide accounting counsel and any additional auditing services the contracting officer may require. Please contact [name], Supervisory Auditor, at [telephone number] or fax [fax number].

[FAO Manager Name]
Branch Manager
[FAO Name]

01 (3/3)

Auditor:	
Date:	

Enclosure 2