



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PPD 730.5.26.1

April 15, 2009
09-PPD-006(R)

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

SUBJECT: Audit Guidance on Approving and Rescinding Contractor's Authorization to Participate in the Direct Bill Program for Major Contractors

At the June 2009 Executive Steering Committee Meeting, Regional Directors and the Director, Field Detachment, will report on the status of FAO actions taken in response to this MRD.

SUMMARY

By May 29, 2009, FAOs cognizant of major contractors with billing systems that have been approved for direct billing should ensure that those systems have not been significantly modified or the contractor has not implemented a new system since issuance of the latest adequate audit opinion. In addition, the accounting system and billing system may be so interconnected that a major change to the accounting system will impact Government billings. If a billing system or accounting system that affects the billing system has been significantly modified or a new system has been implemented, the following steps should be taken:

- Auditors should immediately provide verbal and written notification to the appropriate contractor level (e.g., the Chief Financial Officer) that their authorization to participate in the Direct Bill Program will be rescinded in 30 days.
- The FAO should ensure that it has a documented sampling plan and procedures for reviewing a sufficient number of public vouchers as part of its review plan (CAM 6-1008).
- The FAO should ensure that an appropriate number of FAO personnel are authorized to approve interim vouchers in Wide Area Workflow (WAWF).
- Auditors should immediately commence a billing system audit.
- Upon completion of the billing system audit of the new or modified system, the contractor may be authorized to direct bill if the auditor determines that the new or revised system is adequate.

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GUIDANCE

DFARS 242.803 allows DCAA to authorize direct submission of interim vouchers to the applicable disbursing office for provisional payment for contractors with approved billing systems. Approval for direct billing must be based on an audit of the contractor's system where DCAA has deemed the system adequate. Therefore, in cases where the contractor has implemented a new (or significantly revised) billing system and DCAA has not completed its audit of the new system, contractors should not be authorized for direct billing until the audit is completed and DCAA has determined the system to be adequate. When auditors become aware of contractor billings being processed from a new (or significantly revised) system that has not been audited, the auditor should immediately provide verbal and written notification to the appropriate contractor level (e.g., the Chief Financial Officer) that their authorization to participate in the Direct Bill Program will be rescinded in 30 days. The auditor must determine the adequacy of the new or significantly revised billing system by performing a billing system audit under DMIS Activity Code 11010 for major contractors. In assessing the significance of modifications to the billing system, the auditor should determine if the modification of the system could affect the operating effectiveness of the billing system control objectives or activities.

In some instances, the accounting system and the billing system may be so interconnected that a major change to the accounting system will affect the billing system. Consequently, major changes to the accounting system should be taken into consideration when assessing whether the billing system is the same system previously determined to be adequate for direct billing.

Auditors should appropriately prioritize a review of a new contractor system that impacts Government billings, regardless of the three-year testing cycle for major contractors. While the auditor can perform certain audit steps on the new or significantly modified system prior to implementation (e.g., review management-approved policies and procedures), the auditor cannot adequately test the entire system, and the resulting billings generated from that system, until it has been implemented and a sufficient number of invoices have been processed to permit adequate transaction testing. Auditors should appropriately tailor the audit program to include steps to test for data integrity based on implementing the new system. For example, auditors should ensure that the contractor has appropriately reconciled the booked costs under the previous accounting system with those reported under the new/significantly modified system. Auditors should not review contractors' draft procedures as this could be construed as assisting the contractor in developing or implementing the system that is the subject matter of the audit. This could give the appearance of a lack of independence.

FAOs should refer to CAM 6-1008 for guidance for selectively sampling and reviewing interim vouchers. The sampling plan should ensure that a sufficient number of vouchers are reviewed, based on the applicable risks, to ensure contractor billings are acceptable for provisional payment. FAOs should also ensure that an appropriate number of auditors are registered in WAWF in order to review and provisionally approve cost vouchers submitted through WAWF. If applicable, FAOs should coordinate with their Regional Point of Contact for approval of additional users in WAWF.

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CONCLUDING REMARKS

We plan on issuing additional guidance in the near future for reviewing new contractor billing/accounting systems. In addition, we will be issuing further guidance on the direct bill program for nonmajor contractors. FAO personnel should direct questions to their regional POCs, and regional personnel should direct any questions to Policy Programs Division, at (703) 767-2270 or e-mail: DCAA-PPD@dcaa.mil.

/s/ Terry M. Schneider
/for/ Kenneth J. Saccoccia
Assistant Director
Policy and Plans

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