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| Activity Code 11015 | | Testing of Paid Vouchers |
| Version 8.7, dated September 2016 | | |
| B-1 | Planning Considerations | |
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| Audit Specific Independence Determination | | |
| <p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 34) prior to starting any work on this assignment.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g. FAO technical specialist) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p> | | |
| Purpose and Scope | | |
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| <ol style="list-style-type: none"> 1. The purpose of this assignment is to perform limited current period tests on selected paid vouchers. This assignment was designed to test the contractor’s compliance with the contract terms. However, we will also use the results of the testing to support the incurred cost audit for the period. | | |
| <ol style="list-style-type: none"> 2. The testing should be based on a review of paid vouchers that DCAA already sampled, reviewed, and approved for pre-payment using the risk-based approach. Auditors are not required to perform the interim voucher review procedures described in CAM 6-1005 as part of this assignment. | | |
| <ol style="list-style-type: none"> 3. The scope of the testing is limited to the costs incurred in the current billing period, not the cumulative billing cost. | | |
| <ol style="list-style-type: none"> 4. Post-payment testing will be performed on at least one interim voucher per year for non-major contractors, and at least one interim voucher per quarter for major contractors. FAOs should consider if it is necessary to review additional vouchers based on their knowledge of the contractor’s billing history (i.e., history of rejected vouchers or improper/over payment). If risk factors warrant additional testing, the FAO should expand testing beyond the minimum. FAOs may also use the results of the post-payment testing as part of the assessment on whether or not the contractor should remain in the low-risk pool. FAO should not wait until the end of the year or quarter to perform this assignment. | | |
| <ol style="list-style-type: none"> 5. The paid voucher evaluation procedures apply to all contractors submitting interim vouchers for review including those not using Wide Area Workflow. | | |
| Other Planning Considerations | | |
| Prior to commencing the audit, review guidance that may impact the audit and adjust the | | |

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scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.

Since real-time assignments, Labor Floorcheck/Interviews (MAAR 6) and Purchase Existence and Consumption (MAAR 13), could be performed simultaneously or have some overlap in the timing of the procedures to be performed, this needs to be considered and documented in the risk assessment of this audit. The risk assessment should document the basis for performing less testing, such as when the current labor and/or materials costs were part of the floorcheck and/or purchase existence and consumption audit and the results of that testing can be relied on to limit the testing in this audit. However, if the current billings were not included in the universe of the floorcheck and/or purchase existence and consumption audit, then significant labor and/or materials costs should be evaluated for existence and if required by the contract. If a floorcheck and/or purchase existence and consumption audit is being performed concurrently with the post-payment audit, the testing can be performed in those audits and the risk assessment for this audit will document this decision

References

1. CAM 6-1000, Responsibilities for Processing and Approval of Interim and Completion Cost-Reimbursement Vouchers
2. CAM 6-1006, Testing of Paid Vouchers (Post-payment Audit)
3. FAR 52.216-7, Allowable Cost and Payment

| B-1 | Preliminary Steps | WP Reference |
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| Version 8.7, dated September 2016 | | |
| 1. Research and Planning | | |
| a. Review the FAO permanent files including prior audits of the contractor’s billing system, review of interim public vouchers, audit leads, MAARs Control Log and prior relevant audits to identify areas of high risk. | | |
| b. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures: (1) During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have | | |

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| <p>contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.</p> <p>(2) Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.)</p> | |
| <p>c. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <p>(1) During the entrance conference:</p> <ul style="list-style-type: none"> • Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit. • Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result. <p>(2) If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"> • Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment. • Document the results of the determination in writing. • If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports. • If assignment is at a non-major contractor and the FAO | |

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| <p>does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports.</p> <ul style="list-style-type: none"> • The request, issued by the CAC, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers. <p>(3) If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> • Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.). • Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings. <p>(4) Document the results of the inquiries including the response received from contractor’s for any request for access to internal audit reports. (If access was not granted this should include the contractor’s rationale or justification for not granting access).</p> <p>(5) Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit).</p> | |
| <p>2. Contact the Administrative Contracting Officer to notify them of the commencement of audit. Discuss any significant concerns or other information that the contracting officer may have relevant to the audit that will impact the audit and adjust the audit scope and procedures accordingly.</p> | |
| <p>3. Electronically transmit an acknowledgement/notification memorandum to the ACO notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p> | |
| <p>4. Entrance Conference and Preparation</p> | |
| <p>a. Arrange and conduct an entrance conference in accordance with CAM 4-302.1.</p> | |
| <p>b. Follow up with contractor management on corrective actions that address previous DCAA audit findings and recommendations.</p> | |

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| <p>c. Follow up with contractor management regarding other studies or audits (e.g., internal auditors, consultants, Independent Public Accountants) that impact the subject matter under audit.</p> | |
| <p>5. Using the universe of interim public vouchers selected for pre-payment testing during the last 12 months or quarter for major contractors based on the risk assessment/sampling plan for high-risk contractors and standard parameters for low-risk contractors, judgmentally select a sufficient number of vouchers for additional procedures.</p> | |
| <p>6. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.</p> | |
| <p>7. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be documented in the working papers.</p> | |
| <p>8. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential noncompliances, due to error or fraud, that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"> • relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), • relevant aspects of the contractor and its environment • risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements), • other known risk factors, • the audit team’s understanding of relevant internal controls, • inquiries to the contractor regarding its fraud management plans and controls. <p>Document fraud risk factor/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If Fraud risk factors are present, document specific audit</p> | |

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| <p>procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (http://gao.gov/products/GAO-12-331G) • AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf) • DoDIG’s Contract Audit Fraud Scenarios and Resources website (http://www.dodig.mil/resources/fraud/resources.html) <p>(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)</p> | |
| <p>9. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p> | |
| <p>10. Issue a final acknowledgement/notification memorandum to the ACO/Buying Command to communicate our audit scope and the expected completion date.</p> | |

| C-1 | Testing of Paid Vouchers | WP Reference |
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| Version 8.7, dated September 2016 | | |
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| | <p>1. Verify that the contractor is not delinquent in the payment of cost incurred in the performance of the contract in the ordinary course of business.</p> | |
| | <p>a. Review the contractor’s aging of accounts payable schedule. Discuss any significant amounts over 30 days old with the contractor.</p> | |
| | <p>b. Based on the risk assessment, select a minimum number of items (e.g., five items) charged direct to the contract and trace the</p> | |

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| amounts from voucher(s) to evidence of payment. If the contractor is delinquent in paying costs in the ordinary course of business, the costs are not reimbursable in accordance with FAR 52.216-7(b) <i>Reimbursing costs</i> . | |
| 2. Verify Labor Amounts Billed: | |
| a. Based on the risk assessment, select labor charges billed direct to the contract and trace the amounts from voucher(s) to timecard/time keeping system detail. | |
| b. Meet with or at least speak to the employees and ask them to confirm the time charges. | |
| c. Verify direct labor charges agree with the contract requirements (statement of work). | |
| 3. Verify Other Direct Cost (ODC) Amounts Billed: | |
| a. Based on the risk assessment, select ODC charges billed direct to the contract and trace the amounts from voucher(s) to the accounting records and supporting documentation. | |
| b. Review supporting documentation for significant unallowable or unreasonable cost. | |
| 4. Review the cost elements in the standard form (SF) 1034 and supporting 1035 (or equivalent) to identify any unusual items that might warrant additional review (e.g., items outside the scope of the contract, indirect costs billed direct, credits, etc.). If this analysis discloses unusual items, discuss with the contractor to gain an understanding of the nature of the cost. Depending on the significance/sensitivity of the item, testing to source documents may be necessary keeping in mind that evidence from source documents is usually more reliable than testimonial evidence from contractor personnel. | |
| 5. Time-and-Material or Labor-Hour contracts. Selectively verify that labor is billed at contract rates, and subcontracts are billed at cost or separate rates in accordance with contract terms. Also compare the employee qualifications to those specified in the contract. If the employees do not meet the qualifications specified in the contract, the auditor should consider the guidance in 14-PPD-008(R), (i.e., contact the contracting officer to determine if specific authorization has been or will be given in accordance with FAR 52.232-7(a)(3)). | |
| 6. Verify Materials Costs Billed. | |
| a. Based on the risk assessment, select billed direct material charges and trace the amounts from voucher(s) to the accounting records and supporting documentation. | |

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| <p>b. Review supporting documentation for significant unallowable or unreasonable cost.</p> | |
| <p>c. Verify material costs billed meet the contract requirements.</p> | |
| <p>7. Compare amounts billed to amounts received on the contractor’s records (bank statements, electronic funds transfer, etc.) for each voucher, and when the amounts differ, determine if appropriate notifications were made to the paying office.</p> | |
| <p>a. If amounts received are greater than amounts billed, the contractor should refund the difference to the paying office or offset against a subsequent billing on the same contract within 30 days.</p> | |
| <p>b. If the contractor determines that an offset, instead of a refund, is appropriate, the buying office or the paying office, normally DFAS, should be notified. The offset must be properly authorized, and the authorization must be documented by the paying office.</p> | |
| <p>c. If a significant contractor overpayment is found (\$50 thousand on a single issue or on an individual contract), and (1) the contractor has not notified the Government, and (2) the overpayment is over 30 days old and has not been returned, immediately notify the paying office using the “Proforma Notification to Payment Office” memorandum (W/P 31i). If the overpayment is not significant, the auditor can wait to issue the memorandum as part of the Concluding Steps (see step 7).</p> | |
| <p>d. If the amounts received are less than amounts billed, the differences should be coordinated with the contracting officer, the contract administration office, or the paying office, as applicable, to resolve the differences.</p> | |
| <p>8. If public voucher(s) include subcontract payments, verify that the contractor is monitoring subcontractor billings, including:</p> | |
| <p>a. Coordinate with the contractor to understand what controls are in place to manage its subcontracts and ensure the contractor is monitoring subcontract billings as required by FAR 42.202(e)(2) by performing activities similar to that done by a government contracting officer’s representative (COR) (i.e., the billings from the subcontractor are consistent with the scope work performed, an analysis of the allowability of the costs on the subcontract billing, subcontractor billing rates are updated timely to reflect year-end actual allowable rates, resolving any subcontractor overpayments timely).</p> | |
| <p>b. If the contractor receives accelerated payments, determine it makes accelerated payment to small business subcontractors in accordance with FAR 52.232-40.</p> | |

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| c. Request specific assistance from cognizant DCAA office(s), as applicable, for major subcontractor amounts. | |
| 9. Summarize the results of the fieldwork and document any improper or over payments and potential noncompliances. | |

| A-1 | Concluding Steps | WP Reference |
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| Version 8.7, dated September 2016 | | |
| | 1. Summarize the results of testing. | |
| | 2. Discuss the results with the supervisor. | |
| | 3. Discuss the results with the Administrative Contracting Officer/Buying Command. | |
| | 4. Conduct an exit conference in accordance with CAM 4-304. If the audit discloses costs that are not in accordance with contract terms, coordinate with the contractor to submit an adjustment voucher. If the contractor does not agree to submit an adjustment voucher to deduct the costs from current billings, the auditor should issue a DCAA Form 1 in accordance with CAM 6-900 to suspend the cost and recover the overpayment. | |
| | 5. Prepare a Memorandum for Record documenting your results for incorporation in the future incurred cost audit. | |
| | 6. If the testing of paid vouchers discloses potential deficiencies with the contractor’s billing practices, establish an audit lead to ensure the appropriate additional audit effort is performed in a (11090) business system deficiency assignment. The FAO should set up the 11090 assignment in a timely manner to confirm whether or not a deficiency exists, and should use the results of this assignment as part of the assessment. | |
| | 7. Notify the paying office and contracting officer, via memorandum of any unresolved overpayments by the paying office, improper offsets of overpayment by the contractor, underpayments that have not yet been resolved by the Contractor or Paying Office, and subcontract overpayment(s) (included in billings to the Government) that have not yet been returned by the contractor. The Proforma Notification to Payment Office memorandum (working paper 31) should be addressed to the paying office and, if the paying office is DFAS, sent to the DCAA DFAS Financial Liaison Advisor to be hand delivered/e-mailed to DFAS. A copy should also be provided to the ACO. | |
| | 8. Complete the administrative working papers. | |

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| 9. Update the permanent files. | |
| 10. Submit the working paper package to the supervisor/manager for final review and processing. | |