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Activity Code 11015		Annual Examination of Paid Vouchers
Version 4.0, dated May 2004		
B-1	Planning Considerations	
Purpose and Scope		
<p>1. The purpose of this examination is to determine if the contractor’s voucher preparation procedures are adequate for the contractor’s continued participation in the direct billing program. Only those contractor policies and procedures directly related to the accurate preparation of public vouchers will be evaluated under this assignment.</p> <p>2. The examination should be based on a random sample of paid vouchers recently submitted directly to Government paying offices. The program steps are intended as general guidance and should be tailored as determined by audit risk.</p>		

B-1	Preliminary Steps	WP Reference
Version 4.0, dated May 2004		
1.	Research and Planning	
	a. Read and become familiar with the applicable sections of CAM 5-1100,6-203, 6-705, 6-900, 6-1006, 6-1007, and 6-1008, and any recent Headquarters guidance not incorporated in CAM on the direct billing program or the audit of contract overpayments.	
	b. Examine the FAO permanent files including audits of the contractor’s billing system internal controls – the internal control audit planning summary (ICAPS) for major contractors or the accounting system and system of internal controls (ICQ) for nonmajor contractors, audit leads from other relevant audits, MAARs Control Log and prior audit work packages to become familiar with contractor’s policies and procedures for preparation of public vouchers and to identify areas of high risk.	
2.	Entrance Conference and Preparation	
	a. Arrange and conduct an entrance conference with particular emphasis on requesting the contractor to provide a list of all public vouchers submitted directly to Government paying offices within the last 12 months.	
	b. Randomly select a sample of vouchers (including first vouchers submitted on contracts) from the above list of public vouchers and	

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perform the audit steps contained in section C, Examination of Paid Vouchers. The contractor should provide complete public vouchers including the SF 1035 information.	
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C-1	Examination of Paid Vouchers	WP Reference
Version 4.0, dated May 2004		
1.	Determine if the vouchers are mathematically correct and error free. All columns should have accurate totals showing the computation of the billed quantities and unit prices. This will normally be done only if past experience with the contractor has revealed weaknesses in its billing procedures or if mathematical errors have been otherwise noted.	
2.	Determine if the vouchers are prepared using current amounts in the cost accounting records/job summary report or similar cost ledger, by job category and cost element. Reconcile costs billed to costs booked for the billing period under review.	
3.	Determine if the vouchers are prepared using ACO or DCAA approved provisional billing rates, or if lower, contract rate ceilings or dollar limitations. Ensure that the billing rates have been adjusted to reflect interim, actual year-end allowable, and final rates, as applicable. See FAR 42.704(b) for further requirements regarding provisional billing rates.	
4.	Determine if the billings are based on current contract provisions. Contractor billings should incorporate the terms of contract provisions in compliance with any special contract provisions, modifications, ceilings, or funding limitations. The total amount billed should not exceed any contract, work order, funding limitation, or any other contract ceiling amount.	
5.	Verify that the public vouchers contain current and cumulative billed amounts. The contractor should have procedures to compute the cumulative amounts booked and billed as shown on SF 1035 (continuation sheet).	
6.	Compare amounts received to amounts billed for each invoice, and when the amount differs, determine if appropriate notifications were made to the paying office.	
a.	If amounts received are greater than amounts billed, the difference should be refunded to the paying office or offset against a subsequent billing on the same contract within 30 days.	
b.	If the contractor determines that an offset, instead of a refund, is appropriate, the buying offices or the paying office, normally	

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<p>DFAS, should be notified. The offset must be properly authorized, and the authorization must be documented by the paying office.</p>	
<p>c. Immediately notify the paying office, via memorandum, if a significant contractor overpayment is found (\$50 thousand on a single issue or \$50 thousand 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. Use the pro forma notification to the payment office memo located in APPS.</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>7. If public vouchers reviewed include subcontract payments, verify that the contractor is monitoring subcontractor billings, including:</p>	
<p>a. Ensuring subcontractor billing rates are updated timely to reflect year-end actual allowable rates as appropriate;</p>	
<p>b. Ensuring subcontractors are periodically performing comparisons between billed and paid amounts on the subcontract and notifying the prime contractor accordingly;</p>	
<p>c. Resolving any subcontractor overpayments timely; and</p>	
<p>d. Requesting assist audits of major subcontractor vouchered amounts, as necessary.</p>	
<p>8. Verify that the contractor is current on its submission of incurred cost proposals in accordance with contract terms. (FAR 52.216-7(d)(2)).</p>	
<p>9. Verify that the contractor submits final vouchers for physically complete cost-type contracts within 120 days (or longer if approved in writing by the Contracting Officer) after settlement of the final annual indirect cost rates for all years of a physically complete contract in compliance with FAR 52.216-7(d)(5).</p>	
<p>10. Verify that for cost-reimbursement type contracts, if required, the contractor withholds fixed fee after payment of 85 percent of contract fixed fee until a reserve is set aside in accordance with contract terms. The reserve should not exceed 15 percent of the total contract fixed fee or \$100,000, whichever is less. See FAR 52.216-8.</p>	
<p>11. Verify that for time and material and labor hour contracts, if required, the contractor withholds 5 percent of billable labor costs, not to exceed a total of \$50,000 per contract. FAR 52.232-7(a)(2).</p>	
<p>12. Verify that the contractor is not delinquent in the payment of cost</p>	

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incurred in the performance of the contract.	
13. For contracts that require registration in the Central Contractor Registration (CCR) database (i.e., contracts that contain the clauses at FAR 52.232-33, DFARS 252.204-7004, or NASA FAR Supplement 1804.7402), verify that the contractor’s CCR registration status is active/registered. If the contractor is required to register in the CCR, but does not have an active registration, provide this information to the regional Task Force member.	

A-1	Concluding Steps	WP Reference
	Version 4.0, dated May 2004	
	1. Summarize the results of audit.	
	2. Discuss the results with the supervisor.	
	3. Conduct an exit conference with the contractor in accordance with CAM 4-304.	
	4. If the examination of paid vouchers indicates that continued reliance can be placed on the contractor’s procedures for the preparation of interim vouchers, the auditor should draft a memorandum for file documenting the FAO’s decision to allow the contractor’s continued participation in the direct billing program. However, if the examination of paid vouchers indicates that continued reliance can not be placed on the contractor’s procedures for the preparation of interim vouchers, the FAO should follow the audit guidance contained in CAM 6-1007.7d for rescinding the contractor’s authority to direct bill.	
	5. Ensure that the paying office and contracting officer have been notified of any unresolved overpayments, contract administration adjustments, demand letters, and subcontract billings that are over 30 days old; and of any improper offsets. The pro forma notification to the payment office 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 and the regional Task Force member.	
	6. Update the permanent files, e.g. ICAPS or ICQ.	
	7. Coordinate with the supervisory auditor to verify DMIS accuracy. In the contractor tables in DMIS verify the accuracy of entries for:	
	<ul style="list-style-type: none"> • Direct billing initiative 	
	<ul style="list-style-type: none"> • CAGE code(s) – Ensure all current, applicable CAGE codes are included in the DMIS contractor table. 	

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<p>8. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:</p>	
<p>a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.</p>	
<p>b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.</p>	
<p>c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.</p>	
<p>d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.</p>	
<p>e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails by “MFF” or “MFR” in the naming convention as appropriate.</p>	
<p>f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included</p>	

Master Document – Master Document

<p>separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.</p>	
<p>g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.</p>	
<p>h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.</p>	
<p>i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701-2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.</p>	
<p>j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.</p>	
<p>k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.</p>	
<p>l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).</p>	
<p>m. <u>Do Not File Sensitive Audits in iRIMS</u>: Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.</p>	