

Master Document – Audit Program

C-1	Establishment of Provisional Billing Rates
Version 1.2, dated September 2015	
Purpose and Scope	
<p>1. The purpose of this assignment is to establish or adjust provisional billing rates as required by FAR 42.704, Billing Rates. The scope of the work performed in this assignment does not constitute an audit or attestation engagement under generally accepted government auditing standards (GAGAS).</p>	
<p>2. FAR 42.704(a) states that the person responsible for establishing final indirect cost rates (contracting officer or auditor) is also responsible for determining provisional billing rates.</p> <p>a. If the ACO is responsible for establishing the contractor’s provisional billing rates and has established the rates, this assignment should not be opened. A copy of ACO’s letter with established provisional billing rates should be placed in the Perm File and used for pre-payment reviews (voucher processing). In most cases, any support to the ACO in establishing provisional billing rates should be done as part of the audit team’s normal interaction with the ACO and no assignment should be opened.</p> <p>b. If the ACO is responsible for establishing the contractor’s provisional billing rates and has requested the auditor’s assistance, use the procedures below and issue a memorandum with recommended provisional billing rates to the contracting officer, or if so desired by the ACO, a letter directly to the contractor establishing provisional billing rates on behalf of the ACO.</p> <p>c. If the auditor is responsible for establishing provisional billing rates, this assignment should result in a letter directly to the contractor, which specifies the approved provisional billing rates, with a copy to the ACO.</p>	
<p>3. Provisional billing rates should be established in a timely manner, typically at the beginning of a contractor fiscal year (i.e. to support the first voucher submitted for the year).</p> <p>a. Contractors should be encouraged to submit provisional billing rates at the end of the fiscal year to establish billing rates for the new fiscal year.</p> <p>b. If the contractor does not submit provisional billing rates, FAR 42.704 allows the contracting officer or auditor to establish rates considering historical unallowable, nonrecurring costs, and new or changed conditions.</p>	
<p><u>NOTE – In no case should the FAO delay establishing rates waiting for a contractor submission.</u></p>	
<p>4. Auditors may use this program to adjust established provisional billing rates during the contractor fiscal year if the contractor’s indirect rates fluctuate significantly from the established provisional billing rates.</p>	
<p>5. Auditors may use this program to adjust established provisional billing rates if the</p>	

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contractor’s rates in the final indirect cost rates proposal differ significantly from the established provisional billing rates.	
References:	
1. CAM 6-705.1 Provisional Billing Rates	
2. FAR 42.704 Billing Rates	
3. FAR 52.216-7 Allowable Cost and Payment	
C-1 Provisional Billing Rates Detailed Steps	<u>WP Reference</u>
1. Notify the contractor you are initiating the process of establishing billing rates and ask if the contractor wishes to provide any input (e.g., budget, projections for changes, etc.) related to any anticipated changes in business volume, organizational structure, and/or indirect rate structure for the new fiscal year.	
2. Review the FAO perm files for relevant information which may impact provisional billing rates. <i>Note -- If no historical information is available, the auditor will need to obtain a forecast from the contractor to establish provisional billing rates. (This could be simply getting the proposal for the award of the contract and evaluating the proposed indirect cost rates).</i>	
3. Review incurred cost audit reports to ascertain the significance and trend of any questioned costs/rates. If significant questioned costs were identified, consider decrementing by a similar amount when establishing the provisional billing rates. <i>Note – The auditor should consider the relevance of questioned costs from prior years to determine if it is likely that questioned costs identified several years ago could impact the current billing rates.</i>	
4. Compare the billing rates from prior years to contractor actual year end rates and to final rates in incurred cost submissions. If there are significant variances, obtain an explanation from the contractor. Determine if prior year billing rates need to be adjusted. Inquire as to whether the contractor submitted adjustment vouchers when the actual year end rates/final indirect rates are significantly different than the billing rates. <i>Note – The prior year actual rates do not have to be audited.</i>	
5. If applicable, compare the rates in the incurred cost proposal for the contractor’s prior fiscal year with established billing rates for current year. If there are significant variances, discuss with the contractor,	

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and make any appropriate adjustments to the billing rates.	
6. If the contractor has submitted input (e.g., budget, projections for changes, etc.) for its new fiscal year, have the contractor provide a walk-through of the input and any significant changes from previous year’s rates.	
7. Summarize what the procedures above have disclosed and make any appropriate adjustments to the billing rates.	
8. Discuss the adjusted rates with the contractor.	

A-1	Concluding Steps	WP Reference
Version 1.2, dated September 2015		
	1. Summarize results.	
	2. If the auditor is responsible for determining the provisional billing rates, issue a letter directly to the contractor, which specifies the approved billing rates, with a copy to the ACO.	
	3. If the ACO is responsible for determining the provisional billing rates in accordance with FAR 42.704(a) and has requested the auditor’s assistance, issue a memorandum with recommended billing rates to the ACO, or if so desired by the ACO, a letter directly to the contractor establishing billing rates on behalf of the ACO.	