

<b>Activity Code 17390</b>	<b>Contractor Compliance with Billing Instructions</b>
<b>Version 2.5, dated June 2012</b>	
<b>B-1</b>	<b>Planning Considerations</b>
Purpose and Scope: To identify and review billing and payment instructions and determine contractor compliance with contract billing instructions.	
The major objectives of this evaluation are to:	
<ul style="list-style-type: none"> <li>• Identify current billing and payment instructions in the contract.</li> </ul>	
<ul style="list-style-type: none"> <li>• Determine if billing and payment instructions adequately provide for payment by Accounting Classification Reference Number (ACRN) (i.e., CLIN/SLIN should be funded by only one ACRN and if there is more than one, there should be clear instructions on how to bill and pay.)</li> </ul>	
<ul style="list-style-type: none"> <li>• Determine whether payment instructions are consistent with billing instructions.</li> </ul>	
<ul style="list-style-type: none"> <li>• Determine if the contractor is complying with billing instructions.</li> </ul>	
<ul style="list-style-type: none"> <li>• Communicate suggestions for improving billing and payment instructions to the ACO/PCO.</li> </ul>	
<b>References</b>	
<ol style="list-style-type: none"> <li>1. CAM 5-1107.2 – Contract Briefings</li> <li>2. CAM 5-1107.3 – Management Review and Approval</li> <li>3. CAM 5-1108.3 – Briefing Contract Requirements</li> <li>4. 11010 Billing System Audit Program</li> <li>5. DFARS 204.7103-1(a)(4)</li> <li>6. DFARS 204.7104</li> <li>7. PGI 204.7107</li> </ol>	

<b>B-1</b>	<b>Preliminary Steps</b>	
<b>Version 2.5, dated June 2012</b>		<b>WP Reference</b>
<b>1. Research and Planning</b>		
a. Review the open MRD's for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs		

can be identified using the link provided on the DCAA Intranet home page	
b. Review permanent files to obtain current contract listing, and determine and document prior audit work relating to contractor compliance with contract billing instructions. Consider this information when performing the audit steps.	
c. Review the ICQ (for nonmajor contractor where ICAPS have not been completed) or billing system Internal Control Audit Planning Summary (for major contractors) and related section of the contractor's permanent file to obtain an understanding of the contractor's policies and procedures for (1) briefing contracts to identify billing instructions; and (2) ensuring billings are prepared in accordance with contract instructions. Identify any deficiencies which would impact the evaluation and document their potential impact on the scope of evaluation.	
d. 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.	
When sufficient work is not performed to determine reliability (i.e., reduce risk to an acceptable level), explain in the memo to the ACO that we did not evaluate the contractor's computerized billing system in this evaluation.	
<b>2. Other Preliminary Steps</b>	
a. Meet with the Administrative Contracting Officer (ACO) to:	
<ul style="list-style-type: none"> <li>• Contact the contracting officer to ascertain any known concerns (including risk related to the contractor's financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor's financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.; and</li> </ul>	
<ul style="list-style-type: none"> <li>• Inform the ACO that any suggestions to improve the billing and payment instructions will be communicated via a memorandum on a real time basis.</li> </ul>	
<ul style="list-style-type: none"> <li>• Electronically transmit an acknowledgement/notification to the ACO/Buying Command notifying them of the commencement</li> </ul>	

<p>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><b>3. Entrance Conference and Preparation</b></p>	
<p>a. Conduct an entrance conference as outlined in CAM 4-302, and invite the ACO to attend the entrance conference. The entrance conference should emphasize the following:</p>	
<p>(1) Purpose of evaluation. Explain to the contractor that this evaluation is intended to identify and review billing and payment instructions and determine contractor compliance with contract billing instructions.</p>	
<p>(2) Request the contractor to update the listing of all DoD contracts (both cost type and fixed price) recently awarded (last 12 months) over \$100 million. The contract listing should include such information as contract number, contract value, contract type, and contract period of performance.</p>	
<p>(3) Request the contractor to provide and explain its procedures for briefing contracts, delivery/task orders, and modifications to identify billing instructions and ensuring billings are prepared in accordance with these instructions.</p>	
<p>(4) Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p><b>4. Initial Risk Assessment</b></p>	
<p>a. Obtain a copy of/access to the complete contract, including all modifications, and coordinate with the ACO/PCO to verify that we have the entire contract, including the latest modifications to date.</p>	
<p>b. Brief the contract, including all modifications to identify the current billing/payment instructions and ACRN/CLIN/SLIN structure.</p>	
<p>c. Make copies of the sections of the basic contract and all modifications that contain billing and payment instructions, including all ACRN to CLIN/SLIN structure. Include this information in the working papers.</p>	
<p>d. Consider the information obtained from the preliminary audit steps and document the planned scope.</p>	
<p>5. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a</p>	

<p>material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team’s understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See “Principal Sources of Fraud Indicators” below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> <li>• Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: <a href="http://www.dodig.mil/PUBS/igdh7600.doc">http://www.dodig.mil/PUBS/igdh7600.doc</a>.</li> <li>• CAM Figure 4-7-3.</li> </ul> <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
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<b>C-1</b>	<b>Determine Adequacy of Billing/Payment Instructions</b>	
	<b>Version 2.5, dated June 2012</b>	<b>WP Reference</b>
	1. Determine whether the contract contains billing instructions.	
	2. If the contract does not contain billing instructions, perform the following steps: <ul style="list-style-type: none"> <li>a. Request the contractor to explain how they prepare billings on this contract,</li> <li>b. Determine if any billing instructions were received by means other</li> </ul>	

<p>than the contractual documents,</p> <p>c. Request the ACO and PCO to provide DCAA a copy of any billing instructions outside of the contractual documents that were provided to the contractor.</p>																			
<p>3. Determine whether payment instructions are contained in Section G of the contract, as required by DFARS Procedures, Guidance, and Information (PGI) 204.7108.</p>																			
<p>4. Identify the ACRN to CLIN/SLIN structure and determine whether a one to one relationship exists. Each CLIN/SLIN should be funded by only one ACRN; however, an ACRN can fund more than one CLIN/SLIN. If a CLIN/SLIN is funded by more than one ACRN, the contract should provide specific payment instructions to permit the paying office to charge the ACRNs assigned to that CLIN in a manner that reflects the performance of work on the contract. An example of an ACRN/CLIN relationship not requiring specific instructions follows:</p> <p style="padding-left: 40px;">ACRN</p> <table style="margin-left: 40px; border-collapse: collapse;"> <tr> <td style="padding-right: 20px;">AA</td> <td style="padding-right: 20px;">CLIN 0001</td> <td>\$XXXXXXXX</td> </tr> <tr> <td>AA</td> <td>CLIN 0002</td> <td>\$XXXXXXXX</td> </tr> <tr> <td>AB</td> <td>CLIN 0003</td> <td>\$XXXXXXXX</td> </tr> </table> <p>An example of an ACRN/CLIN relationship requiring specific payment instructions follows:</p> <p style="padding-left: 40px;">ACRN</p> <table style="margin-left: 40px; border-collapse: collapse;"> <tr> <td style="padding-right: 20px;">AA</td> <td style="padding-right: 20px;">CLIN 0001</td> <td>\$XXXXXXXX</td> </tr> <tr> <td>AB</td> <td>CLIN 0001</td> <td>\$XXXXXXXX</td> </tr> <tr> <td>AC</td> <td>CLIN 0001</td> <td>\$XXXXXXXX</td> </tr> </table>	AA	CLIN 0001	\$XXXXXXXX	AA	CLIN 0002	\$XXXXXXXX	AB	CLIN 0003	\$XXXXXXXX	AA	CLIN 0001	\$XXXXXXXX	AB	CLIN 0001	\$XXXXXXXX	AC	CLIN 0001	\$XXXXXXXX	
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<p>5. Document your understanding of the billing/payment instructions and the ACRN to CLIN/SLIN structure.</p>																			
<p>6. Review billing and payment instructions and determine whether they adequately reflect the ACRN/CLIN/SLIN structure and, where required, provide specific payment instructions to permit the paying office to charge the ACRNs assigned to the CLINs in a manner that reflects the performance of work on the contract.</p>																			
<p>7. Review the billing and payment instructions to determine if they are consistent in how costs are to be billed and assigned to particular ACRNs and CLINs .</p>																			
<p>8. If the contract does not contain payment instructions to the paying office and the ACRN/CLIN/SLIN relationship requires specific payment instructions, notify the ACO via memorandum.</p>																			

<p>9. Document any noted suggestions for improving billing/payment instructions and include in the memorandum to the ACO/PCO. Coordinate with the regional DFAS Task Force representatives as necessary.</p>	
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<b>D-1</b>	<b>Contractor Compliance with Billing Instructions</b>	
<b>Version 2.5, dated June 2012</b>		<b>WP Reference</b>
1. Select a sample of billings submitted on the contract under review.		
2. Review the contractor’s briefs of the contract to determine if billing instructions included in the contract were identified and documented (the briefing should include all contract modifications issued up to the current date).		
3. Selectively evaluate billings on the contract under review to verify compliance with the contract billing instructions as documented in working paper section C. Ensure that the contract billing instructions have been incorporated into the contractor’s billing system used to process billings.		
4. Document any noted noncompliances with billing instructions and determine whether the noncompliance represents a billing system deficiency. If significant deficiencies or suggestions for improvement are found, consider issuing a flash internal control report or memorandum to the contractor and contracting officer to facilitate immediate corrective action of the deficiencies and implementation of the suggestions.		
5. Consider the impact of the deficiencies on the adequacy of the contractor’s billing system and direct billing status.		
6. If necessary, set up assignment to draft letters rescinding direct billing.		

<b>A-1</b>	<b>Concluding Steps</b>	
<b>Version 2.5, dated June 2012</b>		<b>WP Reference</b>
<b>1. Summary Steps</b>		
a. Summarize and discuss the results of evaluation with the Supervisory Auditor and perform any other audit effort required.		
b. Prepare a memorandum to the ACO to document the audit results		

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and any suggestions to improve the contract billing and payment instructions. Pro forma memoranda are provided as 17390 – Pro forma Memoranda.	
c. Conduct an exit conference with the contractor in accordance with CAM 4-304, including providing the contractor comments on factual matters such as data accuracy, internal control deficiencies, and suggestions for improvement.	
d. After obtaining the contractor’s comments, incorporate them into the memorandum to the ACO. Incorporate the contractor’s comments and/or corrective actions on significant deficiencies in the flash internal control reports and other memoranda (as applicable). Copies of the final memorandum to the ACO, flash internal control report, and other related memoranda should be provided to the regional task force member.	
e. Update permanent file in accordance with CAM 4-405.1	