

Activity Code 17390	Contractor Compliance with Billing Instructions
Version 2.1, dated May 2004	
B-1	Planning Considerations
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"> • Identify current billing and payment instructions in the contract. 	
<ul style="list-style-type: none"> • 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.) 	
<ul style="list-style-type: none"> • Determine whether payment instructions are consistent with billing instructions. 	
<ul style="list-style-type: none"> • Determine if the contractor is complying with billing instructions. 	
<ul style="list-style-type: none"> • Communicate suggestions for improving billing and payment instructions to the ACO/PCO. 	
References	
<ol style="list-style-type: none"> 1. CAM 5-1107.2 – Contract Briefings 2. CAM 5-1107.3 – Management Review and Approval 3. CAM 5-1108.3 – Briefing Contract Requirements 4. 11010 Billing System Audit Program 5. DFARS 204.7103-1(a)(4) 6. DFARS 204.7104 7. DFARS 204.7107(e)(3)(i) 	

B-1	Preliminary Steps	
Version 2.1, dated May 2004		WP Reference
1. Research and Planning		
<ol style="list-style-type: none"> a. 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.	
b. 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.	
c. If the contractor is classified as nonmajor (where ICAPS have not been completed) and if the evidential matter to be obtained during the evaluation is highly dependent on computerized information systems, document on working paper B-2 the work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2:	
1) the assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
2) the procedures/tests that will be performed in this evaluation to evaluate the incurred costs that will also support reliance on the evidential matter, and/or	
3) the tests that will be performed in this evaluation that are specifically designed to test the reliability of the computer-based data.	
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.	
2. Other Preliminary Steps	
a. Meet with the Administrative Contracting Officer (ACO) to:	
<ul style="list-style-type: none"> • Discuss the objectives of the evaluation; 	
<ul style="list-style-type: none"> • Determine if the ACO has any specific concerns and identify any contracts the ACO would like included in the evaluation (obtain contract number and reasons for review); and 	
<ul style="list-style-type: none"> • Inform the ACO that any suggestions to improve the billing and payment instructions will be communicated via a memorandum on a real time basis. 	
3. Entrance Conference and Preparation	

<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. Initial Risk Assessment</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>C-1</p>	<p>Determine Adequacy of Billing/Payment Instructions</p>	
<p>Version 2.1, dated May 2004</p>		<p>WP Reference</p>
<p>1. Determine whether the contract contains billing instructions.</p>		
<p>2. If the contract does not contain billing instructions, perform the following steps:</p> <p>a. Request the contractor to explain how they prepare billings on this contract,</p> <p>b. Determine if any billing instructions were received by means other</p>		

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<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 204.7017e(3).</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 border="0" style="margin-left: 40px;"> <tr> <td>AA</td> <td>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 border="0" style="margin-left: 40px;"> <tr> <td>AA</td> <td>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.</p>																			

Coordinate with the regional DFAS Task Force representatives as necessary.	
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D-1	Contractor Compliance with Billing Instructions	
Version 2.1, dated May 2004		WP Reference
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.		

A-1	Concluding Steps	
Version 2.1, dated May 2004		WP Reference
1. Summary Steps		
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 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	
2. Closing Actions	
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:	
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.	
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.	
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.	
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	

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<p>[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.</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 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>	

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k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).	
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.	