

**Master Document – Audit Program**

<b>Activity Code 17500</b>		<b>Progress Payment, Flexible</b>
<b>Version 4.0, dated April 2004</b>		
<b>B-1</b>	<b>Planning Considerations</b>	
<p>1. This program is intended to provide a logical sequence to the audit effort and to reflect a mutual understanding between the auditor and the supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps in the program are intended as general guidance and should be modified as considered necessary to fit the current audit. Portions of the audit which are covered in other assignments (e.g., accounting system, billing system, Earned Value Management System Criteria) should be referenced at the appropriate place in this program.</p>		
<p>2. The purpose of the audit is to determine if the proposed flexible progress payment rate (or a previously established rate) is appropriate for use in providing contract financing on the contract. Critical factors in making this determination include:</p>		
<p>3. Determination of the appropriate DoD Cash Flow Computer Model to be used.</p>		
<p>4. Determination of the length of the "Progress Payment Lag" between the contractor's cost statement date and receipt of the progress payment.</p>		
<p>5. Determination of the "Delivery Payment Lag" days between the delivery date and the receipt of the actual delivery payment.</p>		
<p>6. Determination of the number of "Float days" between the cost statement date and the time the cost is actually paid--bank float days included.</p>		
<p>7. Other factors such as percent of cost paid, contract delivery schedule, distribution of expected costs, and length of contract.</p>		
<p>8. The scope of the flexible progress payment rate audit will depend on (1) the materiality of the contract and (2) the reliance that can be placed on the contractor's estimating system, accounting system, internal controls, and billing procedures. If the results of prior audits and the preliminary audit steps indicate low audit risk, audit scope should be reduced accordingly. This decision must reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. This program does not replace individual auditor judgment and may be supplemented to satisfy the needs of a particular assignment.</p>		
<b>References</b>		
<p>1. FAR 32.5 and DoD FAR Supplement 232.5</p>		
<p>2. The Progress Payment clauses in the contract (See FAR 52.232-16 and DoD FAR Supplement 252.232-7004)</p>		
<p>3. DoD "Cash Flow Computer Model Users Guide", Revision 1, dated 1 February 1983</p>		

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4. DoD "Cash Flow Computer Program", CASHP101, dated 26 September 1990. See the following MRDs:
a. MRD 90-OTS-258, dated 26 December 1990
b. MRD 91-OTS-045, dated 13 March 1991
c. MRD 91-OAD-135, dated 16 July 1991
5. CAM 5-300 "Review of Progress Payments"
6. CAM 9-1400 "Review of Flexible Progress Payment Rates"

<b>B-1</b>	<b>Preliminary Steps</b>	
	<b>Version 4.0, dated April 2004</b>	<b>WP Reference</b>
	1. If this audit is to redetermine a previously established flexible progress payment rate for this contract, review the working papers of previous assignments and request updated cash flow data from the contractor.	
	2. Review the contractor's flexible progress payment rate submission to make sure it is current and complete. If the contract has started, ensure that the data file includes any actual monthly cost statements, progress payments, and deliveries.	
	3. Request a copy of the contractor's data file on floppy diskette and supporting documentation for the following factors (if not included in the contractor's submission package):  (1) Progress Payment Lag days. (2) Delivery Payment Lag days. (3) Float days. (4) Percent of cost paid.	
	4. Determine if the above Lag and Float factors are covered under advance agreements.	
	5. Review permanent files and/or other audit assignments to ensure that the scope of audit considers findings from earlier audits. (Note: At some smaller contractors, such information may not be separately maintained in a permanent file, but rather may be contained in individual current audit assignments.)	
	6. If the contractor is classified as non-major (where ICAPS have not been completed) and if the evidential matter to be obtained during the audit is highly dependent on computerized information systems,	

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document on working paper B-2 the audit 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:	
a. the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
b. the procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or	
c. the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data.	
When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4a and 10-1204.4.	
7. Review the solicitation (or contract) for terms and conditions that affect progress payment requests.	
8. 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, note this fact in the audit report (CAM 14-205a).	
9. Contact Government contract administration and program office officials to (1) verify which DoD Cash Flow Computer Model should be used, and (2) determine if they are aware of any changes to delivery schedules, Government progress payment lag times, contract modifications, advance agreements, or other factors that could affect the scope of work.	
10. If this audit is to evaluate a redetermination of a previously established rate, determine if the contract is eligible for a redetermination as follows (see CAM 9-1402e):	
a. Run the DoD Cash Flow Computer Program, CASHP101 (see CAM 9-1403e), with the contractor's data file and a specified progress payment rate equal to the current flexible progress payment rate.	

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<p>b. Verify that the contractor investment percentage (CIP) computed by the program is more than 2 percentage points above or below the required minimum contractor investment percentage. If not, terminate the audit and report to the ACO that (1) the CIP is within the investment tolerance provided for in the contract, and (2) the current flexible progress payment rate should not be changed.</p>	
<p>11. In planning and performing the examination, review the fraud risk indicators in CAM Figure 4-7-3 for applicability to this audit. Document in working paper B any identified fraud risk indicators and your response/actions to those identified risk (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p>	

<b>C-1</b>	<b>Accuracy-Reasonableness</b>	
<b>Version 4.0, dated April 2004</b>		<b>WP Reference</b>
Review the following elements of the analytical report and data file for accuracy/reasonableness:		
1. Contract Price: Represents the sum of all delivery payments in the data file (Transaction Codes 4 and 5).		
<p>a. Verify the contract price to the contractor's price proposal or contract. For redeterminations on flexibly priced contracts, ensure that this amount does not exceed the ceiling price.</p>		
<p>b. Verify the dates, amounts, and liquidation rates of any actual deliveries (Transaction Code 5).</p>		
<p>c. Verify the dates and amounts of planned deliveries (Transaction Code 4) to the delivery schedule in the contract. For redeterminations, determine if there have been any changes to the delivery; if so, verify to the latest revision.</p>		
2. Total Contractor Cost: Represents the sum of the cost statement amounts in the data file (Transaction Code 3).		
<p>a. For initial determinations, compare the cost statement amounts to the contractor's price proposal. Verify the amount/distribution of cost by cost element.</p>		

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b. For redeterminations, compare the cost statement amounts to actuals and the latest estimate at completion (EAC). Verify the amount/distribution of cost by cost element.	
c. For loss contracts, ensure that the cost statement amounts exclude the element of loss through the use of a loss ratio.	
3. Profit Paid to Contractor and the Computed Profit Percentage: These are calculated by the program based on 1. and 2. Above.	
<b>Note:</b> The planned profit percentage on the first line of the data file must agree with the computed profit percentage.	
4. Start-up Cost of Contract: Represents precontract costs. These are properly allocable and allowable costs that are incurred prior to definitization of a contract or the signing of a letter contract. Ensure that these costs have been properly authorized and approved by the Government for progress payment purposes.	
5. Contract Start Date (YYMMDD): Represents the first day of the accounting period of the first cost statement. This will be the first day of the month the contract is definitized or the letter contract is signed.	
6. Cost Elements: Verify the number and propriety of the cost elements used by the contractor (maximum of 10). These represent groupings of costs with the same progress payment eligibility (INCUR, PAIDC, or SUBCT) and similar float times.	
7. Actual Progress Payments. Verify the dates, amounts, and progress payment rates of any actual progress payments received (Transaction Code 1).	
8. Verify the number of days used to calculate the alternate liquidation rate (minimum of 365 days). Should be the number of days between the contract start date and the actual or estimated date of the current progress payment request if greater than 365 days.	

<b>D-1</b>	<b>CashP101 Program</b>	
<b>Version 4.0, dated April 2004</b>		<b>WP Reference</b>
1.	Run CASHP101 program simulations to determine the effect possible audit adjustments (both singular and in combination) have on the CIP and the proposed progress payment rate.	

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<p><b>NOTE:</b> For redeterminations, first run the simulations with a specified progress payment rate equal to the current flexible rate to determine if the possible audit adjustments will change the CIP more than 2 percentage points above or below the required minimum contractor investment percentage. The current flexible progress payment rate should not be changed unless this investment tolerance is exceeded (see CAM 9-1404).</p>	
<p>2. Expand the audit of a factor when the simulations indicate the possible audit adjustment will change the CIP enough to change the progress payment rate.</p> <p><b>NOTE:</b> For redeterminations, expand the audit of a factor only if the possible audit adjustment will cause the CIP variation to exceed the investment tolerance.</p>	
<p>3. At any point where it is determined that the CIP cannot be changed enough to lower the progress payment rate or, for redetermination, the CIP cannot be changed enough to exceed the investment tolerance, the audit should be curtailed.</p> <p><b>NOTE:</b> Most audits of small contracts/contractors with minimal fixed-price work can be completed as desk/computer reviews.</p>	

<b>E-1</b>	<b>Lag, Float, And Percent Cost</b>	
<b>Version 4.0, dated April 2004</b>		<b>WP Reference</b>
1. Review the contractor's supporting data for the proposed Lag, Float, and Percent Cost Paid factors (see CAM 9-1403e). Continue with step 2 & 3 below if:		
a. The Progress Payment Lag days appear to be overstated.		
b. The Delivery Payment Lag days appear to be overstated.		
c. The Float days (including bank float) appear to be understated.		
d. The Percent Cost Paid factor appears to be overstated.		
2. Estimate the maximum amount each factor could be adjusted if audit of that factor was expanded.		

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<p>3. Run CASHP101 program simulations to determine the effect possible audit adjustments (both singular and in combination) have on the CIP and the proposed progress payment rate.</p>	
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<b>F-1</b>	<b>Other Areas Flexible</b>	
<b>Version 4.0, dated April 2004</b>		<b>WP Reference</b>
<p>Test the contractor's billing system internal controls for reconciling amounts received on billings for this contract. If the test finds that the contractor has received overpayments, further test the contractor's controls for notifying the contracting officer and the paying office.</p>		

<b>A-1</b>	<b>Concluding Steps</b>	
<b>Version 4.0, dated April 2004</b>		<b>WP Reference</b>
<p>1. Discuss audit findings with supervisor and hold an exit conference (follow the guidance in CAM 4-304.2).</p>		
<p>2. Complete indexing and cross-reference workpapers.</p>		
<p>3. Draft Report (CAM 9-1409 and 10-1200).</p>		
<p>4. Significant procedural or control deficiencies, or CAS/FAR noncompliances should be cited in this report and also reported separately using the procedures in CAM 10-400 or 10-800. If significant billing system deficiencies are noted, issue a flash report and revise the ICAPS risk assessment.</p>		
<p>5. If the auditor has encountered information that constitutes evidence or raises suspicion that fraud or other illegal acts have occurred, refer such suspicion by completing a DCAA Form 2000 (see CAM 4-702.4 and 5).</p>		
<p>6. 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</p>		

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final filing.	
<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.</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>	

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<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. <b><u>Do Not File Sensitive Audits in iRIMS:</u></b> 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>	