

**Master Document – Audit Program**

<b>Activity Code 15600</b>		<b>Limitation of Payments</b>
<b>Version 3.0, dated April 2004</b>		
<b>B-1</b>	<b>Planning Considerations</b>	
<b>Purpose and Scope</b>		
<p>The purpose of this audit is to verify the accuracy of the contractor's QLOP statement, if required by a FAR 52.216-5, 52-216-6, 52.216-16, or 52.216-17 clause to the contract, to ensure that billing prices during contract performance are within a reasonable range of the expected final prices or estimates at completion (EACs). Identification of overpayments and other required adjustments may also be accomplished. This audit should determine whether the contractor is consistently using the most current cost at completion estimate for both progress payments and QLOP statements. Inconsistencies between the documents may indicate that the contractor is seeking overpayments. Moreover, the auditor should be alert for defective pricing leads.</p>		
<p>FAR QLOP provisions incorporated in fixed-price-incentive (FPI) contracts and fixed-price-redeterminable (FPR) contracts; limit payments for supplies and/or services delivered to (i) final established prices (FFP portion of a FPI/FPR contract), (ii) estimated costs where final prices have not been established (FPI/FPR), and (iii) proportional share of profit on the estimated costs where final prices have not been established (FPI/FPR). The QLOP statement is the means and reporting vehicle for these FAR provisions.</p>		
<p>The scope of the QLOP statement audit depends on the reliance placed on the contractor's accounting system, internal controls, cost representations, and billing procedures (as documented in related Internal Control Audit Planning Summaries, or ICQ for FYs 1994 and prior). If the results of prior QLOP statement audits and billing system audits indicate low risk, a limited audit of the contractor's submittal may be appropriate. However, if inconsistencies are observed, a detailed audit of the EAC may be required. This audit program does not replace audit judgment and may be supplemented to satisfy the needs of the particular assignment.</p>		
<b>References</b>		
<ol style="list-style-type: none"> <li>1. Standard Audit Program for Progress Payments Based on Cost Incurred (APPAYCOS)</li> <li>2. Audit Program for Flexible Progress Payment Proposals (APPAYFLX)</li> <li>3. Audit Program Payments Based on Percentage or Stage of Completion (APPAYPCT)</li> </ol>		

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4. FAR QLOP Clauses:
a. Price Redetermination--Prospective
b. Price Redetermination-- Retroactive
c. Incentive Price Revision--Firm Target
d. Incentive Price Revision--Successive Targets
5. CAM 14-200, Audit of Progress Payments
6. CAM 11-100, Audit of Contractor Compliance with “Limitation of Cost,” “Limitation of Funds,” and “Limitation on Payments” Clauses

<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
	Version 3.0, dated April 2004	
	1. Evaluate the contract file to determine:	
	a. Whether the provision for QLOP statements is in the contract price revision or redetermination clause as applicable,	
	b. The cost sharing formula, target cost, target profit, target price, and ceiling price for the price revision type contracts,	
	c. Requirements for financial reporting related to contract performance such as CPRs, CFSRs, and C/SCSs, and	
	d. FFP and FPI/FPR contract items.	
	2. Obtain the following:	
	a. Supporting details of the QLOP statement,	
	b. Progress payment (SF 1443) submittal nearest to the date of the QLOP statement,	
	c. Contractor-generated and/or contract-required cost performance reports or other related financial reports having issue dates nearest to the QLOP statement date, and	
	d. Summary listing by date of DD250s identifying delivered items, quantity, unit price, and extended price.	
	3. Evaluate the Internal Control Audit Planning Summaries for related systems to obtain an understanding of the contractor's policies, procedures, and related internal controls which may impact the scope of this audit.	
	4. 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 10-504.4a.	

<b>C-1</b>	<b>QLOP</b>	
Version 3.0, dated April 2004		<b>WP Reference</b>
1. Verify/reconcile the following QLOP statement amounts:		
a. Total contract price of delivered supplies and services having final established prices accepted by the Government (FFP portion) to the amount stated on both the progress payment (SF 1443), line 21a, and the DD Form 250 summary listing.		
b. Total cost of delivered supplies and services accepted by the Government for which final prices have not been established as follows:		
(1) If the actual cost of each item delivered is maintained in the contractor's accounting records, then verify to these records.		
(2) Should accounting records not be maintained by items or services delivered, an alternate equitable method of allocating costs is acceptable. For example, actual costs incurred to date divided by equivalent units produced or the relationship of total estimated cost at completion to total contract price.		
(a) Determine the percentage of cost to price by dividing the sum of Items 12a and 12b (total cost at completion), by Item 5 (contract price) for FPI/FPR items, as shown on the progress payment request (SF 1443).		
(b) Apply the above percentage to the contract price of the		

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FPI/FPR items delivered to determine their cost. The amount computed should reconcile to the SF 1443, Item 20a.	
(3) If the results of the above computations do not provide reasonable reconciliation to the amounts reported in the QLOP submittal, analyze the contractor's methods and evaluate its reasonableness and equity.	
c. Profit on items delivered for which final prices have not been established:	
(1) Determine the reasonableness of the contractor's computation.	
(2) Complete Computation and Analysis for Profit of items for the selected SF 1443 plus for any other required financial report (See Step 3 below).	
d. Total amount of all invoices or vouchers for supplies delivered and accepted to determine that the amounts represent:	
(1) FFP items--contract unit prices	
(2) FPI/FPR items--contract target prices	
(3) Total contract--reconcile to progress payment SF 1443, line 21a (contract price of items delivered) and DD 250 summary listing.	
2. Determine if the sum of preceding steps 1.a, 1.b, and 1.c is greater or less than the amount invoiced in step 1.d. If the amount in 1.d is greater than the sum of 1.a, 1.b, and 1.c, the contractor may have received overpayment and the Government may be due a refund or credit. If the 1.d amount is less than the sum of 1.a, 1.b, and 1.c, the contractor may have been underpaid on the contract.	
3. If the contractor is required to submit other financial reports such as CPRs, reconcile the indicated EAC in these reports to the EAC shown in the SF 1443. Evaluate and report any significant variance, as well as any unreasonable amounts that may have been shown for the EAC.	
<u>Note:</u> EACs used to prepare QLOP statements and progress payment requests should be reconcilable and based on the same data reflected in CPRs, budgets, or management reports. Different estimates could result in the Government financing contract overruns. The contractor benefits when assuming an on-target or underrun position for progress payments and simultaneously reflecting an overrun or on-target position, respectively, for the QLOP statement. By misusing EACs, it is possible to create overpayments through progress payments and billing prices.	
4. If the QLOP statement being audited is the initial submittal, ensure it was provided within 45 days after the end of the quarter of the	

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contractor's fiscal year in which the first acceptable delivery or services performed under this contract was made.	
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<b>A-1</b>	<b>Concluding Steps</b>	
	Version 3.0, dated April 2004	<b>WP Reference</b>
	1. Summarize audit results.	
	2. Discuss factual matters with the contractor as necessary.	
	3. Discuss with supervisor any further audit action which may be required based on the contractor's or ACO's reaction.	
	4. If exceptions are taken, discuss findings and contractor's reaction with the ACO for possible action and as advance notification.	
	5. Draft report in accordance with CAM 10-200 and 10-1200.	
	6. Update the ICAPS as appropriate.	
	7. 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. <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.	