

**AUDIT OF
BILLING SYSTEM CONTROLS**

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<p>1. <u>MANAGEMENT REVIEWS</u> The contractor should have policies and procedures for monitoring of the billing process, including regular compliance reviews to ensure that billing requests are in accordance with applicable regulations, contract provisions, and related contractor policies and procedures. This must include periodic reconciliations of contract costs, as identified by the accounting system to costs billed.</p>	<p>The contractor conducts regular internal compliance reviews to reasonably assure that its policies and procedures are being implemented. The following compliance review areas warrant special consideration:</p> <ul style="list-style-type: none"> • Adequacy of written procedures. • Employee knowledge and compliance with policies and procedures. • Consistency with which the policies and procedures are applied and by whom. • Timely follow-up actions. 	<p>Identify and selectively evaluate the documentary evidence and the frequency of the contractor's management reviews and reconciliations of booked to billed costs to determine whether the scope of such reviews are appropriate, the conclusions sound, and appropriate follow-up actions were taken (see CAM 4-1000).</p>
<p>2. <u>POLICIES AND PROCEDURES</u> Provide adequate written policies and procedures and training on the preparation and submission of billing requests in accordance with applicable regulations and contract provisions.</p>	<p>Written policies and procedures exist to address topics such as:</p> <p>a. The contractor trains appropriate personnel on preparation and submission of billing requests. Training should include topics such as:</p> <ul style="list-style-type: none"> • Billing procedures, including briefing of contracts, review and approval process, etc. • Applicable FAR requirements. • Revisions to company policies and Government billing regulations. 	<p>Evaluate the contractor's policies and procedures and assess their adequacy in the following areas:</p> <p>a. Training of employees involved in the preparation of billing requests. Verify that policies, procedures, and course materials are adjusted to comply with revisions to government rules and regulations.</p>
	<p>b. The contractor briefs contracts to identify billing requirements such as, but not limited to, the following:</p> <ul style="list-style-type: none"> • Specific requirements regarding contractual unallowables. • Ceiling and funding limitations. • Cost sharing arrangements. • Retentions and withholds. • Required frequency of billings. • Profit or fee provisions in the contract. • Specific requirements regarding forms and additional required documentation. • First article approval provisions. 	<p>b. Briefing of contracts to identify and document billing requirements, including all contract modifications, and update of the briefs accordingly.</p>

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	<ul style="list-style-type: none"> • The classes of labor and the types of operations to which the contractual rates apply in time and material contracts. • Liquidation rates. • Unique contract clauses that impact billings. • Applicable FAR regulations. 	
	c. Management reviews and approves billings and contract briefs.	c. Verify management review of billings prior to submission.
	d. The contractor reviews subcontractors' accounting and billing systems for adequacy prior to providing them interim financing.	d. Evaluate subcontractors' accounting and Billing Systems to determine the systems are adequate prior to providing the subcontractors with interim financing.
	e. The contractor periodically reconciles billing system data and records to the cost accounting records.	e. Reconciliation of billing system data and records to the cost accounting records. If applicable, ensure that practices used to accumulate and bill costs are consistent with practices used to estimate contract costs (CAS 401 and FAR 31.201-1 and 31.203(d)) and that costs accumulated and billed are allowable in accordance with FAR 31.201-2.
	f. The contractor makes prompt adjustments of billings to reflect appropriate year-end and final indirect rates and direct costs, and ensures subcontractors make comparable adjustments in their billings.	f. Adjustments of billings to reflect appropriate year-end and final indirect rates and direct costs including an evaluation of subcontractors' billings to determine if they are also making year-end billing rate adjustments.
	g. The contractor excludes the following unpaid costs from billings: <ul style="list-style-type: none"> • Accrued costs of direct materials and subcontract costs that the contractor has not paid in accordance with the terms and conditions of the subcontract or invoice and ordinarily will not pay prior to submission of the contractor's next payment request to the government. • Accrued costs that the contractor is delinquent in paying in the normal course of 	g. Exclusion of the following unpaid items from billings: <ol style="list-style-type: none"> (1) accrued costs of direct materials and subcontract costs that the contractor has not paid in accordance with the terms and conditions of the subcontract or invoice and ordinarily will not pay prior to submission of the contractor's next payment request to the government. (2) accrued costs that the contractor is delinquent in paying in the ordinary course

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	<p>business.</p> <ul style="list-style-type: none"> • Accrued costs of pensions, post retirement benefits, and profit sharing or employee stock ownership plans that have not been paid at least quarterly (within 30 days after the end of the quarter). • The contractor excludes costs of progress payments made to subcontractors on terms less favorable to the government than the progress payment clause contained in the prime contract. In cases where the costs of subcontract progress payments are included in billings to the U.S. Government, the contractor monitors performance and expected profitability under subcontracts, and reduces or suspends subcontractor progress payments as necessary to protect against overpayment and losses. 	<p>of business.</p> <p>(3) accrued costs of pensions, post retirement benefits, and profit sharing or employee stock ownership plans that have not been paid at least quarterly (within 30 days after the end of the quarter).</p> <p>(4) costs of progress payments made to subcontractors on terms less favorable to the government than the progress payment clause contained in the prime contract. In cases where the costs of subcontract progress payments are included in billings to the U.S. Government, ensure that the contractor has procedures to protect against overpayment and losses. These procedures should include the monitoring of performance and expected profitability of the subcontractors and reducing or suspending subcontractor progress payments as necessary.</p>
	h. The contractor develops estimates of costs attributed to items delivered/invoiced as appropriate for use in calculating progress payment amounts.	h. Estimates of costs attributed to items delivered/invoiced.
	i. The contractor timely identifies loss contracts and makes appropriate adjustments to billings for costs attributable to the loss.	i. Notification to the government that adjustments of billings may be required for potential loss contracts for the portion of costs attributable to the loss.
	j. The contractor properly controls Government assets whose costs are billed directly to the Government and provides the listing of the assets as required.	j. Title to Government assets whose costs are billed to the U.S. Government.
	k. The contractor develops estimates at completion on a timely basis, no longer than every 6 months, including anticipated contract losses.	k. Use of the most current estimate to complete to prepare billings.
	l. The contractor validates and briefs the Government on all changes to the billing system	l. All changes to the Billing System and related software are validated and briefed to the

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	and related software before the changes are implemented.	government prior to implementation.
	m. The contractor maintains cumulative allowable cost records required for the accurate and timely preparation of interim and final vouchers.	m. Maintenance of cumulative allowable costs records required for the accurate and timely preparation of interim and final vouchers.
	n. The contractor compares amounts received to amounts billed for each invoice and follows-up with the payment office on any discrepancies. If the discrepancy is an overpayment, it should be immediately returned to the paying office.	n. Comparison of amounts received to amounts billed for each invoice and follow-up with the paying office if amounts differ. If amounts received are greater than amounts billed, the difference should be immediately returned to the paying office.
	o. When the contractor submits a delivery invoice, it credits the government for progress payments billed against the delivered items.	o. Reduction of billed amounts on delivery invoices for previously received progress payments.
	p. The contractor has procedures in place to assure that fixed-fee withholds on cost-reimbursement and T&M contracts are withheld in accordance with contract terms.	p. Withholding of fixed fees for cost reimbursement and T&M/labor hour contracts in accordance with contract terms (See CAM 6-1006a (5) and (6)).
3. <u>IMPLEMENTATION OF POLICIES AND PROCEDURES</u> Provide that policies and procedures are executed to assure only billable costs/prices/fees applicable to U.S. Government contracts are included in billings in accordance with applicable regulations and contract terms.	a. Contractor disseminates the policies and procedures to applicable employees.	a. Interview billings personnel to determine whether they are familiar with, have access to, and actually refer to the written policies and procedures.
	b. Applicable employees are trained on the contractor's billing policies and procedures, including the examples in Section 1 above.	b. Selectively evaluate evidence that employees responsible for preparing billing requests have been trained in applicable billing policies and procedures. For example, check training records, course materials, and attendance sheets; interview employees; etc.
	c. The contractor briefs contracts and reflects applicable contract requirements in their billings.	c. Selectively compare the contractor's contract briefings to the applicable contract and related billings to determine if they adequately brief contracts and that they reflect unique contract

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		requirements in their billings
	d. Management performs an adequate review of all billings prior to their submission.	d. Selectively evaluate evidence that management reviewed and approved billings. For example, evaluate management approval signature, interview billing employees, etc.
	e. The contractor assesses the adequacy of subcontractors' accounting and billing systems prior to providing the subcontractors with interim financing.	e. Selectively verify that the adequacy of subcontractors' accounting and Billing Systems are assessed prior to providing the subcontractors with interim financing.
	f. The contractor validates and briefs the Government on billing system and related software changes before implementation.	f. Test to determine if the policies and procedures are being followed by: (1.) Observation of the billing process. (2.) Inspection of selected billing records and documentation.
	g. The contractor periodically reconciles billing system data and records to the cost accounting records.	g. Selectively evaluate contractor reconciliations of Billing System data and records to the cost accounting records. If applicable, ensure that practices used to accumulate and bill costs are consistent with practices used to estimate contract costs (CAS 401 and FAR 31.201-1 and 31.203(d)) and that costs accumulated and billed are allowable in accordance with FAR 31.201-2.
	h. The contractor compares amounts received to amounts billed for each invoice and follows-up with the paying office on any discrepancies, especially overpayments.	h. Selectively evaluate contractor comparisons of amounts received to amounts billed for each invoice and determine, when the amount differs, if appropriate notifications were made to the paying office (especially for overpayments). Determine if the paying office requested actions were complied with.
	i. The contractor validates and briefs the Government on billing system and related software changes before implementation.	i. Selectively evaluate Billing System and related software changes to determine if they were validated and briefed to the government prior to implementation.
	j. The contractor reduces the amount billed on individual delivery invoices by the appropriate amount of progress payments previously	j. Selectively evaluate delivery invoices and determine that the amounts billed are reduced for previously received progress payment

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	<p>received.</p> <p>k. The contractor should maintain cumulative allowable cost records to prepare accurate and timely interim and final vouchers.</p>	<p>amounts.</p> <p>k. Selectively evaluate interim and final closing vouchers submitted by the contractor and determine if the amounts billed are reconcilable to the cumulative allowable cost records used to prepare interim and final vouchers. Test for the following:</p> <ol style="list-style-type: none"> (1.) Cumulative amounts billed on interim vouchers do not exceed the total estimated ceiling costs on the contract and/or the current contract maximum funding levels. (2.) amounts claimed on the final voucher reconcile to the annual incurred cost audits; (3.) assist audits have been received on all significant subcontract costs prior to the closing of the applicable contracts; (4.) subcontract assist audit cost results reconcile with claimed costs on the final voucher; (5.) refunds, rebates, credits, or similar amounts have been received, if any, and accounted for in the final voucher.