December 29, 1997

MEMORANDUM TO: Distribution

FROM: Michael J. Rubino, Associate Director
Acquisition Services Branch

SUBJECT: Policy Memorandum No. 97-021 –Methodology for Invoice Approval

1. Purpose. The Purpose of this Policy Memorandum is to modify the Acquisition Policy Manual (APM) to allow Oversight Managers and Contracting Officers to review samples of certain contractor invoices, as part of the invoice review and approval process.

2. References. APM 7.I.6.b., *Processing Invoices, Invoice Review and Approval*, page 7-40.

3. Scope. This Policy Memorandum is applicable to all Contracting Officers and Oversight Managers.

4. Background.

APM 7.I.6 requires Oversight Managers and Contracting Officers to review contractor invoices as part of the invoice approval process. The Contracting Officer (CO) reviews the invoice to ensure that it is correct, complies with the terms and conditions of the contract, and that total payments do not exceed the contract ceiling. The Oversight Manager (OM) reviews the invoice to ensure that it properly reflects the goods and services received and that all goods and services billed have been inspected and accepted. Similar to the Contracting Officer's review, the OM also reviews the invoice to ensure that the total payments do not exceed the contract ceiling price.

In some cases, based upon the nature of goods and/or services provided, the invoice can be a voluminous document, requiring significant staff time to conduct a 100% review. In appropriate circumstances, a sample of line items on an invoice can provide FDIC with adequate assurance that the invoice is proper. However, sampling of invoices must be conducted in conjunction with effective daily contract administration to ensure that goods and services have been provided in accordance with the requirements of the contract.

5. APM Change. In accordance with the foregoing, a new paragraph is added to APM 7.I.6.b as follows:

"7.I.6.b.(6) ***Invoice Review Based Upon Sampling***.

"(a) **Approval to Use Sampling**. The Contracting Officer, after consultation with the Oversight Manager, shall approve or disapprove the use of sampling as the selected method for invoice review. The determination shall consider the sampling criteria stated in paragraph (b) below.

(b) **Sampling Criteria**. In appropriate circumstances and when approved by the Contracting Officer, the Oversight Manager and Contracting Officer are authorized to examine a sample of line items on an invoice as part of their respective invoice review and approval responsibilities. The following factors should be considered in determining if sampling is appropriate:

(i) the line items on an invoice, are considered to be voluminous and repetitious;
(ii) the dollar value of the line items on an invoice, are for small dollar amounts;
(iii) a 100% review of all line items on an invoice, would not be cost effective and would detract needed resources from daily contract administration responsibilities;
(iv) an adequate sample has been selected to enable the Contracting Officer and Oversight Manager to make an informed judgement as to the accuracy of the entire invoice;
(v) the nature of the supplies and services provided (e.g. commercial items);
(vi) the integrity and reliability of the contractor;
(vii) the accuracy and consistency of the contractor's previous invoices; and
(viii) the potential loss to FDIC in the case of inaccurate invoices.

(c) **Sampling Methodology**.

Because the forms of contractor invoices are varied, judgement must be used to determine the size and scope of the sample to be taken for any particular contract. The invoice sample size should generally be between 25-50% of the line items for each invoice. However, sampling below the 25% or above the 50% threshold may be conducted at the discretion of the Contracting Officer. The sampling size/rationale shall be documented by the Contracting Officer in the Contract File.

If the use of sampling is approved in accordance with paragraph (a) above, the following factors should be applied to develop the sample size and conduct the review:

(i) the total number of line items on an invoice that have been submitted by the contractor during the billing period should be fully identified;
(ii) the number of line items reviewed as part of the sample has been determined to be an adequate and representative sample of the contractor's entire invoice(s);
(iii) if irregularities or errors are documented in the contractor's invoice(s) that bring its overall accuracy into question, sampling will not be utilized and a 100% review of the invoice(s) will be conducted; and
(iv) the size and scope of the sampling review has been documented as part of the file.

(d) **Sampling Size Reviews**

When approved under paragraph (a) above, the Oversight Manager and Contracting Officer should, as a general rule, use the same sample of invoice line items for the respective reviews. However, this is not required as long as each selects an adequate sample size (see (c) above) to enable them to make an informed judgement as to the accuracy/acceptability of the entire invoice. This judgement shall be based upon their respective reviews as required in APM 7.I.6.b.(4) and (5).

6. Effective Date. This Policy Memorandum is effective immediately.

7. Contacts. If you have any questions, please contact David McDermott on (202) 942-3434.

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