Civilian Agency Contract Audit Support
SIN 520-7 Financial and Performance Audits

Alexandra Rouse
Professional Services Program Executive, GSA

Maribeth Monti
Program Manager, Office of Acquisitions and Business Services, FAA

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Civilian Agencies have **Emerging** and **Growing Needs** for Contract Audit Services from Independent Public Accounting Firms

**So...**

**Why Are We Here Today?**

**Discuss** this solution and overall effort

**Create** understanding about what GSA PSS are doing and how this may affect your firm

**Learn** more about how SIN 520-7 Financial and Performance Audits provides a robust solution
Today’s Agenda: Contract Audit Services

OVERVIEW
- Emerging Need
- Groundwork
- Key Strategies
- Professional Services Solution – SIN 520-7

UNIQUE ASPECTS OF CONTRACT AUDITS
- Key Concepts
- Best Practices

NEXT STEPS/ DISCUSSION
Emerging Need

Defense Contract Audit Agency (DCAA) primarily serves the Department of Defense as the executor of cost reimbursable contract audits and also serves the civilian community.

At times DCAA may be unable to fulfill the needs of civilian agencies; thus, independent public accounting (IPA) firms provide the best alternative. For example:

- DCAA’s operating status/capacity prohibits its ability to serve the civilian community
- Smaller agencies often have contracts which are not part of DCAA’s portfolio
- Dollar value of the agency’s contract falls below the $250,000 established DCAA risk threshold
- Agencies prefer to procure IPA services
Groundwork

Working Group Kick-off Meeting (August 2016)
- Respondents agree
- Working Group Approach
- Respondents indicate “go-it-alone” CPA strategy underway

Strategic Acquisition Workshop (October 2016)
- Introductions
- Education: Category Management
- Current State/Future State
- Build Shared Understanding

Market Research RFI
- Conducted independent market research on how agencies and industry were performing Contract Audits
- Gathered basic requirements
- Captured recommendations for solutions as a back-up/alternative to DCAA

DCAA Prohibition Lifted (FY 2017)
- Need persists for Civilian Agencies

Strategic Initiatives

OMB Impacts Survey (April 2016)

FY 2016 NDAA, Section 893

DCAA Prohibition Lifted (FY 2017)

FY2018 NDAA May Mandate Additional Changes
The strategies of the comprehensive Solution Set are mutually exclusive—but taken as a whole they are vital to efficient and effective government.

- **Contract Audit Data Access**
  - Working in tandem with OFPP as part of a larger government-wide access solution

- **Professional Services Category (Contract Solution)**
  - Contract Solution aligned with the Professional Services Category
  - Best Practices Ordering Guide for the acquisition of Contract Audit-related services already available under the Multiple Award Schedules program

- **Shared Services**
  - Coordination Mechanism for CFAO to conduct contract audits amongst relevant agencies
  - Provides Governance Structure

The three strategies are intended to fulfill Agencies’ current and future needs, regardless of DCAA operating status.
GSA has an established Government-wide solution for financial audits under the Multiple Award Schedules (MAS) program. The Contract Solution efforts are taking place under the Professional Services Schedule (PSS), sub-category Business and Financial Solutions, and Special Item Number 520-7, Financial and Performance Audits.

**High Impact**
- Supports category management by reducing contract duplication, reducing overhead costs to the government, maximizes use of existing contract vehicles, and reduces cost to industry.
- Provides the option to procure total audit services and serves to fulfill civilian agency contract audit needs

**Ordering Guide**
- Identifies best practices among government agencies to ensure companies with federal contract audit experience are solicited and can provide meaningful quotes to ordering offices
- Includes contract templates, considerations for “what makes for a quality audit”, sample documents to attach to Request for Quotations, recommendations for evaluation of contractor responses, and pricing considerations. It also includes examples of helpful non-price evaluation factors and lessons learned.
Special Item Number (SIN)-520-7 is defined by the General Services Administration

**Financial and Performance Audits:** “Financial-related audits, performance audits, and contract audits in accordance with Generally Accepted Government Auditing Standards (GAGAS) and non-GAGAS.”

“An independent assessment of an audited entity's a) financial statements in conformity with generally accepted accounting principles, b) financial information, adherence to financial compliance requirements and internal controls, or c) organization or program performance to identify areas for improvement.”

SINs provide a categorization method that groups similar products, services, and solutions together to aid in the acquisition process.
How is the Acquisition of Civilian Contract Audit Services Unique?
Cognizant Federal Agency

Agency with the largest dollar amount of negotiated contracts (FAR Part 42)

Responsible, at a minimum, for:
- Forward Pricing Rate Agreements
- Provisional and Final Indirect Cost Rates
- Contractor Accounting System adequacy and compliance

Major Areas of Emphasis
- Business systems
- Management policies and procedures
- Accuracy and reasonableness of contractors’ forward pricing and incurred cost representations
- Adequacy and reliability of records and accounting systems
- Contractor compliance with contractual provisions having accounting or financial significance

Qualification of Auditor
- GAGAS Compliant: The auditor performs audits in accordance with Generally Accepted Government Auditing (GAGAS) standards of the Comptroller General of the United States.
- Peer Reviewed: The auditor has been peer reviewed, consistent with commercially accepted peer review processes, and has passed such peer review.
Cognizance - What is it? Why is it Important?

FAR—Part 42.002: Agencies shall avoid duplicate audits, reviews, inspections, and examinations of contractors or subcontractors, by more than one agency, through the use of interagency agreements. This approach recognizes the value of focusing on the adequacy of management and financial systems and controls along with transaction testing across all business activities, rather than contract by contract audits.

- Agency with the largest dollar amount of negotiated contracts (FAR Part 42)

- Assumes through interagency agreements that coordination between agencies will take place
Subpart 7.5–Inherently Governmental Functions

7.503 Policy.
(c) The following is a list of examples of functions considered to be inherently governmental functions or which shall be treated as such. This list is not all inclusive:

(12) In Federal procurement activities with respect to prime contracts—
(iii) Approving any contractual documents, to include documents defining requirements, incentive plans, and evaluation criteria;
(iv) Awarding contracts;
(v) Administering contracts (including ordering changes in contract performance or contract quantities, taking action based on evaluations of contractor performance, and accepting or rejecting contractor products or services);
(vi) Terminating contracts;
(vii) Determining whether contract costs are reasonable, allocable, and allowable...
Inherently Governmental Functions (continued)

This also includes providing –
- Organizational structure for audits
- Governance and guidance on the application of the auditing standards, and setting performance standards and evaluating performance
- Decisions on the final recommendations relating to the audit are also inherently governmental

It is important to note that…
“the auditing activities themselves are not an inherently governmental function.”
AUDITOR RESPONSIBILITY

FAR 42.101 prescribes certain responsibilities to the auditor:

- Submitting information and advice to the Contracting Officer, based on the auditor’s analysis of direct and indirect costs
- Reviewing financial and accounting aspects of the contractor’s internal control systems
- Performing other analyses and reviews that require access to financial and accounting records that support cost
Phases of Contract Audit Services

**Pre-Award**
- Accounting System
- Proposal Review
  - Labor Rates
  - Indirect Rates
  - Materials
  - Other Direct Costs

**Execution**
- Annual Incurred Cost Review
- Progress Payments
- Real Time Labor & Material
- CAS Compliance
- Business Systems
- Provisional Billing Rates/Vouchers
- Truth in Negotiations
- Special Contracting/Award Officer Requests

**Close-out**
- Final Voucher
- Terminations
**Best Practices**

**Smart Contracting**
- Firm-Fixed-Price (On budget)
- Cost to Buy a particular type of Audit
- Multiple Award
- IDIQ

- Metrics:
  - TIME/DELIVERY/QUALITY (On Schedule)
- Executive Summary Template for proprietary data (for industry)
- Pre-Qualified items: NDA/OCI/etc.

**Accountability**
**RIGOROUS SURVEILLANCE PLAN**
- Monthly Status Reviews:
  - TIME/DELIVERY (On Schedule)
  - AUDIT COST (On Budget)

**Selection Criteria**
- Assumptions Provided (Validate Price/Risk)
- Past Direct Performance (Sub-contracting accepted)
- Work Samples
- Peer Reviewed
- Disclosure Statement

**Standards of Performance**
- Firm Due Dates
- Monthly Reviews
- GAGAS (Yellow Book) Compliant
- Audit Deliverable Uniformity ("DCAA Like" Audit Reports)
Cross-Agency Civilian Contract Audit Strategies

OVERVIEW OF STRATEGIES ONE & THREE

- Shared Contract Audit Data Access through a centralized database
  - Working in tandem with OFPP as part of a larger government-wide access solution

- Contract Solution aligned with the Professional Services Category
  - Best Practices Ordering Guide for the acquisition of Contract Audit related services already available under the Multiple Award Schedules program

- Coordination Mechanism for CFAO to conduct contract audits amongst relevant agencies
  - Provides Governance Structure
Data Access for Enhanced Decision-Making

**KEY CONSIDERATIONS**

**High Impact and Universal Need**
- On-demand access and visibility into contract audit data is critical to drive decisions in the approach, acquisition, and management of contract audits.
- Supports higher productivity and more efficient use of scarce taxpayer dollars.

**Other Insights**
- Systems exist today that can support agency needs for contract audit information:
  - DCMA’s CBAR, GSA’s SAM, NASA and HHS’ Acquisition/Audit Resource Center (AARC) are four systems to explore.
  - Agencies with systems (GSA/DoD/DCMA/others) form a core team supported by other agency resources.
Shared Services – Governance Structure

KEY CONSIDERATIONS

Shared services—through a modest cross-agency system to integrate and standardize contract audit delivery. An enterprise approach using cross-agency governance is arguably the most effective way to improve outcomes and decrease costs.

High Impact
- Shared audit services to offer identification and coordination with CFAO and communications
- Provides centralized information on Federal cognizance & audit coordination among multiple agencies served by the same contractor/s

Interim Solution
- Federal Procurement Data System (FPDS) can identify who bought what, from whom, for how much, when and where

Longer-term Solution
- Establish clear goals, roles, resources, systems and procedures, detailed implementation plans and other dimensions of strong overall management
Next Steps

- **Contract Audit Data Access**
  - Continue collaboration with OFPP in capturing and providing user-stories on contract audits services to be incorporated into a government-wide database

- **Professional Services Category** *(Contract Solution)*
  - Finalize the Best Practices Guide to assist Contracting Officers to acquire federal contract audit services
  - Finalize communications plan and implement

- **Shared Services**
  - Determine a path forward to support cognizance oversight and to ensure appropriate coordination amongst CFAO and relevant agencies.
For More Information

- **Maribeth Monti**
  Program Manager, Office of Acquisitions and Business Services, FAA
  Maribeth.monti@faa.gov

- **Alexandra Rouse**
  Professional Services Program Executive Agency, GSA
  Alexandra.rouse@gsa.gov