

October 31, 2017

Ms. Geri Haworth
Director
Professional Services Category Management Division
Professional Services and Human Capital Portfolio
Federal Acquisition Service
Email: geri.haworth@gsa.gov

Re: Civilian Contract Audit Services Ordering Guide

Dear Ms Haworth,

PSC welcomes the creation of the Civilian Contract Audit Services Ordering Guide (the "Ordering Guide" or "Guide") and soliciting industry comments on the draft. GSA, along with the federal civilian agencies, decided to share best practices that can be applied under an existing, larger contract mechanism. This approach addresses potential issues directly without the intermediate step of creating a new acquisition vehicle. The draft Guide itself is a good model for future, similar efforts and we welcome the opportunity to provide feedback.

PSC's detailed comments on the draft Ordering Guide and responses to questions for industry are attached. Please do not hesitate to contact me if I can answer any questions or provide additional information about PSC's comments. I may be reached at chvotkin@pscouncil.org or 703-875-8059.

Sincerely,



Alan Chvotkin
Executive Vice President & Counsel
Professional Services Council

CC: Kenny Yiu (Kenny.yiu@gsa.gov)
ccas@gsa.gov

Ordering Guide for Contract Audit Related Services Under the Professional Services Schedule (herein the “Guide”)		
Guide Page #	Guide Section, Paragraph, or Attachment	Feedback
N/A	N/A, General	In several places throughout the Guide, words such as “examination,” “audit,” and “review” are used. Under the American Institute of Certified Public Accountants (AICPA) standards and Generally Accepted Government Auditing Standards (GAGAS), these words have specific meanings and carry much weight when it comes to the type of report and the level of assurance the Government wishes to receive, as well as the Level of Effort (LOE) for the vendor. It would be beneficial for the Guide to help ordering officials understand the difference between common engagement types for contract audits so that they can exercise care when using these words, understand they are not interchangeable, and avoid creating misunderstanding. We identify individual instances in subsequent feedback below. This Guide should not dictate or infer the engagement type and level of assurance by service, as that should be at the discretion of the individual ordering agencies. For the purposes of the Guide, we recommend strictly using the word “audit,” and defining in the introduction that the word “audit” is used generically to cover all types of engagements including financial audits, examinations, reviews, agreed-upon procedures, and performance audits. In addition, the Guide should include an appendix that describes the engagement type by service that is most common in the industry to increase consistency Government-wide, while specifically noting the ordering agency should determine the specific engagement type and level of assurance it desires by audit, and explicitly include that type in the Statement of Work (SOW) for Request for Proposals (RFP).
N/A	N/A, General	Give guidance for ordering agencies to use Time and Materials contract types as the default contract type – Time and Materials (T&M) should be the default contract type for large and/or complex audits since these audits have more unknown factors/variables. LPTA should be used sparingly and only for SIMPLE work.
N/A	N/A, General	Give guidance for ordering agencies to consider impact of simultaneous DCAA and commercial audits – Ordering agencies should consider the impact of having multiple ongoing DCAA and commercial audits, particularly if one audit will affect another—and it likely will!
N/A	N/A, General	Give guidance to ordering agencies to accept a CPA firm’s internal controls process – Ordering agencies should accept the commercial audit firm’s internal controls process on how it will conduct the audit.
N/A	N/A, General	Add ordering agency audit support as a measurement of a successful audit – Section 3 of the Guide lists factors that contribute to a successful audit. They are, however, those that the audit firm produces. Equally important is what the <i>ordering agency itself</i> provides. A factor that can impact the success of an audit is the agency’s own ability to support the audit by providing personnel who can address the audit firm’s information requests.
N/A	N/A, General	Include sample Statements of Work (SOWs) and proposal instructions in addition to sample evaluation criteria.
3	Introduction	The third paragraph, included below, is not clear. We believe the following edits, shown in <i>bold italics</i> , would aid in readability:

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		PSS SIN 520-7 is defined by the General Services Administration as “Financial-related audits, performance audits, and contract audits performed in accordance with GAGAS (commonly referred to as the ‘Yellow Book’) and non-GAGAS <i>engagements</i> . Services under this schedule include 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.”
5	Section 1, Contract Audit Services – Unique Characteristics, sub-section Areas and Types of Contract Audit Services	The text states, “Contract audits are independent, professional <i>compliance examinations of assertions</i> (i.e., proposals, claims, or submissions) made by contractors.” To GAGAS auditors, the <i>bold italicized</i> portion describes a very specific engagement type, and an engagement type that does not generally fit all contract audit services all of the time. See our general comment above.
5	Section 1, Contract Audit Services – Unique Characteristics, sub-sections Areas and Types of Contract Audit Services and Contract Audit Services Throughout Phases of an Award	The sidebar and the graphic at the bottom of the page state in several instances that individual services are “reviews” (e.g., “Incurred Costs/Final Overhead Rate Reviews”). In the industry, many services labeled as “reviews” are commonly performed as examinations. It would aid consistency if the word “examination” was used instead. See our general comment above.
6	Section 1, Contract Audit Services – Unique Characteristics, sub-section Qualified Private Auditor	<p>Provide guidance for personnel qualifications in the evaluation factors – Although the qualified contractors participating under PSS SIN 520-7 will be licensed CPA firms (see Page 6), all of their professionals who provide services should not be CPAs since that is not the industry standard. (In fact, according to DCAA’s Report to Congress for FY16, only 26% of DCAA professionals are CPAs.)</p> <p>Professionals who routinely perform reviews of business systems, management policies and procedures, cost estimating and forecasting, internal controls, compliance with FAR Part 31, CAS, and FAR Part 15.4 typically are not CPAs. By and large, the professionals who have the requisite skills and experience to perform this work have:</p> <ul style="list-style-type: none"> ○ a Bachelor’s Degree in accounting or a related field (e.g., finance, business administration, public administration), with either advanced degrees or related continuing education ○ professional experience in compliance, internal audit, internal controls, or government contracts ○ at least 4 years of combined education and audit experience ○ certifications such as Certified Internal Auditor, Certified Government Financial Manager, and Certified Fraud Examiner. <p>In this field, there are also generational factors to consider. The most experienced professionals obtained on-the-job-training, as the field evolved. Therefore, they may not have undergraduate degrees in the kinds of specialized</p>

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		programs that exist today and may have taken continuing education courses or completed a certificate program rather than a post-graduate degree.
6	Section 1, Contract Audit Services – Unique Characteristics, sub-section Cognizance and Coordination	Government-wide efficiency could be increased with a central database for tracking and communicating cognizance of for-profit contractors, as well as the Points of Contact (POC) for that cognizant agency, so agencies know who to contact/coordinate with to see if their contracts have already been audited, or where audits have been procured before they prepare a task order solicitation. Perhaps GSA could maintain such a database, leveraging information from Orders against the Professional Services Schedule (PSS), and incorporate that resource into the Guide.
7	Section 1, Contract Audit Services – Unique Characteristics, sub-section Cognizance and Coordination	<p>Add guidance to the Ordering Guide on evaluating price analysis and determining price reasonableness in proposals - In the sub-section <i>Contract Audit Services</i>, the Ordering Guide indicates that, in “instances where an agency other than DCAA desires cognizance of a particular contractor”...”the two [a]gencies shall agree on the most efficient and economical approach to meet contract audit requirements”. However, it does not specify how to arrive at an economical approach. We recommend that ordering agencies <i>not</i> use DCAA’s cost estimates as a basis for comparison for the following two reasons:</p> <ul style="list-style-type: none"> ○ DCAA’s hourly rates are below market. In DoD/OSD’s established reimbursable rates for FY17, DCAA’s hourly rate for contract administration services ranged from \$127.55 to \$139.65, with the latter being the rate charged to the public. ○ DCAA may not include supervisory time in its estimates, which further distorts price estimates.
7	Section 1, Contract Audit Services – Unique Characteristics, sub-section Cognizance and Coordination	<p>In the sub-section <i>Avoiding Duplicative Audits</i>, we recommend that the Guide specifically instruct ordering officials to research and identify when contractors and/or specific contracts have already been audited and/or individual contracts have already been closed and settled prior to soliciting services. The Guide should then provide information regarding previous audits, previously audited contracts, or closeout agreements, if that information is to be considered and expected to be leveraged. This information is critical in a Firm Fixed Price award.</p> <p>In the sub-section <i>Avoiding Duplicative Audits</i>, we recommend that the Guide introduce the concept of assist audits so that ordering officials may consider the implications on the procurement and the SOW when the vendor is or is not expected to perform assist audits and incorporate the results into the solicited audits. Assist audits are most commonly performed when an audit of costs incurred includes costs incurred by a legal entity other than the prime contractor, such as a material subcontractor or corporate home office, or of costs that require a highly specialized expertise, such as pension valuation. Ordering officials should understand and dictate how assist audits are to be handled in a procurement of contract audit services. This information is critical in a Firm Fixed Price award.</p>

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8	Section 2, Procurement Best Practices, Selecting Pricing Architecture	We recommend that the Guide add a ‘best practice’ section discussing awarding task orders based on best value instead of Low Price Technically Acceptable (LPTA). A trade-off technique should be used that allows the Government to consider award to other than the lowest priced/cost Offeror or other than the highest technically rated Offeror.
9	Section 2, Procurement Best Practices, Develop Requirements	We recommend that the Guide address the efficiency of ordering audits for multiple contractors and multiple similar engagements under one task order, as opposed to issuing a task order by individual audit. Ordering agencies may have Contract Line Items (CLIN) by contractor or by individual audit under one award, which means less contract administration burden on the Government. This also aids in reducing overall cost because vendors can maximize efficiencies by using economies of scale and can staff task orders accordingly.
8	Section 2, Procurement Best Practices, Develop Requirements	We recommend that Section 2 of the Guide address the ordering official’s consideration of teaming arrangements. Often teaming arrangements can assist in applying the appropriate safeguards when a vendor has an Organizational Conflict of Interest (OCI) while still being able to bid on a task order that might contain many other non-conflicted audits. However, the Guide should specifically instruct that any Offeror, including teaming partners and subcontractors, must still meet the requirements of the “Qualified Private Auditor” section.
9	Section 2, Procurement Best Practices, Develop Requirements	We recommend that the Government seek efficiencies, specifically by grouping the Incurred Cost Proposal (ICP) audits in two-to-four year increments. This reduces the cost of planning and reporting on multiple years separately, but also provides a manageable range of years for the Contracting Officer’s (CO) close-out efforts.
9	Section 2, Procurement Best Practices, sub-section Create Quality Assurance Surveillance Plan	The second bullet states, “to identify and solve and potential delays or issues.” We believe this should read, “to identify and solve <i>any</i> potential delays or issues.”
9	Section 2, Procurement Best Practices, sub-section Develop Efficient Audit Management Practices	We recommend that this section be expanded to provide more detail and examples regarding materiality, report presentation, engagement type, and expectations in an effort to guide ordering officials towards more detailed and comprehensive SOWs. Concepts of materiality, using the work of others, and report/engagement efficiency expectations are critical elements that make large differences in LOE; omitting expectations in procurements creates an increase in assumptions and pricing that is not comparable.
10	Section 2, Procurement Best Practices, sub-section Develop Efficient Audit Management Practices	Regarding the bullet which states, “Firmly Established Due Dates,” we suggest that the Guide identify as a best practice working with the auditee prior to a solicitation for these services to ensure there are no major conflicting priorities that would impact the timeline.

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10	Section 2, Procurement Best Practices, sub-section Assemble Request for Quote (RFQ) Package	Regarding the Attachments to Include in RFQ, the first bullet states, “Sample of the report format the successful qualified auditor will use.” If an agency does not have a standard report format they prefer, it may be beneficial to ask the Offeror to submit a report template used by their firm for evaluation.
11	Section 2, Procurement Best Practices, sub-section Selection Methodology/ Criteria	<p>The 6th bullet recommends “Work Samples” be included in the selection process. It is important to note that these are typically limited distribution reports because of the sensitive and proprietary natures of the subject matter. As such, depending on the contents of a Non-Disclosure Agreement (NDA), Offerors may not be able to provide actual work products without significant redactions. In fact, we recommend that the Guide address security/legal concerns when ordering officials want to require work products, and not allow the evaluation criteria to penalize an Offeror that is unable to provide actual work products due to Non-Disclosure Agreements. The evaluation criteria may allow for report templates or tools instead.</p> <p>We recommend that the Guide instruct ordering officials to be very explicit about NDAs. This will eliminate the need for any back and forth after award and provide details up front, which the Offeror can assess at the time of the bid.</p>
12	Section 3, Measurement of a Successful Audit	The last sentence should state, “...and is <i>completed</i> in a timely manner.”
27	Appendix D, Sample Cost Accounting Standards Board Disclosure Statement	We cannot assess the purpose of this appendix, or its benefit. The appendix is referenced only once in the body of the Guide, and that reference simply notes its existence, not its purpose or use. We recommend removing this appendix and its one-time cross-reference.

Response to Questions for Industry - Feedback on Draft Best Practices Ordering Guide

a) *Is the IWG accurately capturing industry requirements to be an auditor and to perform these types of contract audit services?*

- Appendix B should also include the contract audit solicitation from DOE as they are the largest user of Civilian Agency Contract Audit.
- Does not define use of a performance audit or attest standards (examinations) in execution of the work.
- RFP requirements should mandate the use of the DCAA workprograms tailored and modified rather than referencing to them if you want consistency with DCAA type work. This also ensures consistency in procedures performed across service providers.

b) *Based on the guide, are there any other additional best practices that your firm would recommend for ordering agencies to consider when procuring contract audit services?*

- The guide should note that the National Defense Authorization Act of 2017 limits the use of LPTA to only straightforward commodity procurements. Specifically it recommends avoiding LPTA for information technology services, cybersecurity services, systems engineering and technical assistance services, advanced electronic testing, **audit or audit readiness services, or other knowledge-based professional services.** While this may not apply directly to Civilian Agencies yet, it is a clear indicator that the government values these knowledge-based services and the value that they provide.
- Additional language around what constitutes a “yellow book” audit should be provided. “Yellow book” audits encompass many types of audits for which not all CPA firms have technical expertise. These include audits of Not for Profits, audits of the government itself as well as contract audit services. The Guide should note that specific experience in contract audit within “yellow book” audits should be required for these audits, rather than a standard yellow book audit compliance requirement.

Responses to Questions for Industry - Feedback on Contemplated Pricing Structure

With the previous RFI # 08192016, the IWG was exploring pricing techniques that could leverage a fixed-price-per-audit pricing strategy. The IWG continues to contemplate a fixed-price-per-audit methodology by audit type as shown in the table below. GSA is considering using this pricing structure at the Schedule level to replace the hourly labor rates under SIN 520-7 for independent public accounting firms capable of performing contract audit services. Please provide overall feedback on the feasibility of this approach to change the pricing structure for SIN 520-7. What additional detail or information would your firm need to be provided at the Schedule level in order to make this approach feasible?

AUDIT TYPE	Is a Fixed Price per Audit Type Appropriate to be Established at the Schedule Level? (Yes/No)	If No, Why Not?
Incurred Cost Desk Review	Yes	
Incurred Cost Audit - Direct Cost Only	No	See narrative below for all No answers
Incurred Cost Audit, up to \$5m in auditable dollars	No	
Incurred Cost Audit, between \$5m and \$10m	No	
Incurred Cost Audit, greater than \$10m	No	
Contractor Business System Adequacy Determination - Accounting	No	
Contractor Business System Adequacy Determination - Estimating	No	
CAS Disclosure Statement Adequacy Determination	Yes	
Forward Pricing Rate Proposal Audit, up to \$5m	No	
Forward Pricing Rate Proposal Audit, between \$5m and \$10m	No	
Forward Pricing Rate Proposal Audit, greater than \$10m	No	
Price Proposal Audit with an FPRP audit complete	No	
Price Proposal Audit without an FPRP audit complete	No	
Evaluation of Provisional Billing Rates	No	
Floorchecks	Yes	
Preaward Accounting System (Non-Internal Control Audit) (Standard Form 1408)	Yes	
Postaward Accounting System (Non-Internal Control Audit)	No	
Desk Audit of Direct Costs on Interim Public Vouchers	Yes	

For each of the areas marked “Yes” above, the scope is well defined and the procedures and range of results can be predicted within a reasonable range. For each area marked “No,” the scope at the onset is well defined but there are many factor outside an auditor’s control that can lead to change orders. These factors include Contractor delays in providing information and/or multiple findings or questioned costs or the potential for litigation. It is impossible to estimate how much if any questioned costs or findings will be found during the course of the audit. Nor can the auditor estimate the Contractor’s responsiveness or lack thereof during the audit process. If the auditor is not able to utilize change orders

to mitigate the risk of these situations, then likely they will have to cut costs elsewhere in order to maintain a profit margin or minimize losses sustained. This can be achieved by utilization of less experienced staff, projections of questioned costs, use of less narrative detail in the audit report and less negotiation support to the Contracting Officer. In a fixed price audit environment, essentially as the contractor gets more complicated and there are more questioned costs or issues, the auditor has to find ways to complete the audit according to standard with no additional procedures. These additional procedures can be value added services achieved during the audit process when the auditor and the Contracting Officer work together to determine next steps or additional procedures that would be beneficial during the course of an audit.

When questioned costs are found during the course of an audit, an auditor has two options to address those findings: a) they can take the findings and statistically extrapolate their findings to the remaining population, or b) they can do additional testing to come to a true number that the CO can support during negotiations with substantive evidence. Both methodologies are correct, but while the first adds no value, the second does because it is very hard for a CO to negotiate a “made-up” statistical extrapolated projection. In a fixed-price environment, the auditor will always choose option one.

Similarly with business systems, there are value- added services that can be provided during the course of the audit. Again, when estimating the cost to review a business system, it is impossible to determine if the contractor’s system is working well or inherently flawed in every criterion. If the contractor’s system is in disarray, this is exactly when the government should want additional work performed to ensure it can rely on the system. In a FP environment, the auditor will issue a report noting all failed criteria and recommend disapproval of the system. In a T&M environment, the auditor can add additional procedures at the Contracting Officers request to perform a number of tasks such as:

- Working with the contractor to explain the deficiencies and the underlying controls that need corrective action in order to remedy the deficiency
- Reviewing ongoing corrective action for deficiencies found during the course of the audit in order to update the final audit report so that the Contracting Officer can make an informed decision on the true status of the system

Working with the contractor in this way is especially important when the government is looking to acquire technology from a predominantly commercial company. In order to entice commercial companies to enter the government market, government needs to hold third-party auditors accountable to regulatory requirements but work with them at the same time to get the commercial firms where they need to be. In a fixed price environment, audit reports will be issued per the terms of the SOW and the government will not be provided with the value-added services that provide a path for contractors to get compliant and provide the government the services they want to procure.

An environment which uses fixed price contract vehicles for audit services strips value added services out of audit performance. The audit report becomes a commoditized check the box deliverable.