



Guard Your Investment in Valuable Contracts

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AGENDA

- Why Audit Contracts
- Federal Contracts
- Other Government Contracts
- Q&A



WHY AUDIT CONTRACTS

WHY AUDIT CONTRACTS?

- Required by funding sources
- Required for government contracts
- Reliance on third parties
- Weak contract requirements
- Lack of monitoring/oversight
- Lack of reporting

A HOLISTIC APPROACH



PRIORITY FOCUS AREAS



- Decentralized activities
- Contracted activities
- Activities with significant revenues/expenses
- Activities that must adhere to external rules
- Activities covered by missing or dated policies and procedures
- Activities referenced in ethics hotline reports



Federal Contracts

OVERVIEW OF THE FEDERAL MARKETPLACE

- The federal government is among the world's largest purchasers of goods and services. The Department of Defense (DoD) alone accounts for about one-quarter of the government's total purchases.
- The federal procurement process is relatively simple and straight-forward for standard commercial products and services where the demands and competitive forces of supply have established the market price (i.e., Aspirin, chairs, etc.).



OVERVIEW OF THE FEDERAL MARKETPLACE (CONT.)

Oftentimes, the federal government is the only purchaser of a product or service. In these circumstances, prices have not been established by the marketplace. Therefore, the price the government pays must be determined by other means, such as negotiations based on estimated or actual cost to produce, plus a consideration for profit (i.e., satellites, drones, cyber command systems).



INTRODUCTION TO THE PLAYERS

- Federal Government
 - Department of Defense (DoD)
 - Department of Energy (DOE)
- Contractor – Supplier of goods and services
- Defense Contract Management Agency (DCMA)
- Defense Contract Audit Agency (DCAA)

CONTRACTING OFFICERS

- The contracting officer (CO) is the exclusive agent for the government to enter into, administer, and manage contracts.
- The contracting officer can obtain assistance from:
 - Administrative contracting officers
 - Price analysts
 - Small business specialists
 - Engineers
 - Contract auditors
 - Attorneys



FIXED PRICE CONTRACTS

- Fixed price contracts specify that the contractor is obligated to deliver the product or services for the negotiated contractual price.
 - Provides maximum incentive for the contractor to control costs
 - Suitable for acquisition of commercial items and items with defined specifications such as base maintenance or manufacturing
 - Can audit proposed estimated costs prior to contract award
 - Billing can be for progress payments, percent complete, or fixed unit.
 - Billings do not necessarily equal costs incurred.

FIXED PRICE CONTRACTS (CONT.)

- Audit Requirements
 - Price Proposal
 - Audit of estimates used to prepare proposal
 - Defective Pricing
 - Requested by the contracting officer when there is indication of extreme cost underruns or surplus profit
 - Termination
 - For fixed price, the focus will be on profit earned vs. work completed
 - Termination costs may be reimbursable or contractor may qualify for equitable adjustment

COST TYPE CONTRACTS

- Cost type contracts typically provide for reimbursement of direct and indirect costs incurred plus a fee (profit).
 - Does not inherently provide incentive for the contractor to control costs, requires oversight.
 - Used when uncertainties for performance do not allow for reasonably accurate estimates such as research and development efforts.
 - Billing is for actual “direct” cost and estimated “indirect” cost.
 - Federal cost-type contracts may require accounting system to be adequate for accumulating costs and certification of incurred costs data.

COST TYPE CONTRACTS (CONT.)

- Audit Requirements
 - Pre-award Accounting System Survey
 - Tests design of the system for required capabilities
 - Incurred Cost Audit (also T&M)
 - Requires (Incurred Cost Electronically) ICE submission
 - Testing of historical costs/actual rates
 - Accounting System Audit (post-award)
 - Tests operating effectiveness of internal controls
 - Termination
 - For cost type, all incurred costs plus termination costs are reviewed

TIME & MATERIALS CONTRACTS

- Time and materials contracts have fixed labor rates and reimbursable materials and other direct costs (ODC's).
 - This type of contract provides no incentive for the contractor to control costs and therefore requires oversight.
 - Used when not possible to estimate extent or duration of work or to anticipate costs with any degree of confidence.
 - Audit verifies the quantities and qualities of the costs since rates are fixed.



FEDERAL CONTRACT AND IT AUDITS

- FAR Contract Clause establishes safeguarding requirements for *systems* where federal contract information may reside or through which it may flow.
 - Imposes 15 basic security controls on systems
 - Flows down to subcontractors
- DFARS establishes a requirement for “adequate security” for the *information* (differs based on the type of data) per NIST 800-171.
 - Must report incidents to Government and Prime
 - Flows down to subcontractors



Other Government Contracts

TYPES OF CONTRACTS

- Commercial Contracts
 - Vendors or service providers
- Government Contracts
 - Other government entities
- Contract Type Influences Audit Type or Timing



OVERVIEW OF CONTRACT AUDITS

- Does the contract have an audit clause?
 - Commercial contracts vs. government contracts
 - Defines audit subject and standards used to audit
- Auditable Areas
 - Payments – Progress, lock box deposits
 - Revenues – Fee computation or sharing
 - Expenses – Cost sharing or reimbursement
 - Rates – Overhead, fixed unit, labor
 - Compliance with contract terms – Deliverables, reporting

RELEVANT AUDIT STANDARDS

- AICPA Consulting Standards
 - No opinion
 - Not for third-party use
- IIA Performance Standards (Internal Audit Standards)
 - Opinion or no opinion
 - Perform risk assessment
 - Opinion criteria can be customized by stakeholders
- GAGAS Performance Audit Standards
 - Opinion
 - Provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria
 - Include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses



RELEVANT AUDIT STANDARDS (CONT.)

- GAGAS/AICPA Attest/Assurance Standards
 - Examination: Consists of obtaining sufficient, appropriate evidence to express an opinion on whether criteria in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria.
 - Review: Consists of sufficient testing to express a conclusion about whether any information came to the auditors' attention on the basis of the work performed that indicates the subject matter is not based on (or not in conformity with) the criteria, or the assertion is not presented (or not fairly stated) in all material respects based on the criteria (not for reporting on internal control or compliance with laws and regulations).
 - Agreed-Upon Procedures: Consists of auditors performing specific procedures on the subject matter and issuing a report of findings based on the agreed-upon procedures. No opinion or conclusion.

OTHER GOVERNMENT CONTRACT AUDITS

- Transportation Projects
 - Subject to Department of Transportation (DOT) audit requirements
 - Audit of indirect rates for architectural and engineering work
 - GAGAS Yellow Book attest audit standard
 - Test operating effectiveness of internal controls
 - Extensive timekeeping system review
 - Federal Acquisition Regulation (FAR) audit of all indirect costs



OTHER GOVERNMENT CONTRACT AUDITS (CONT.)

- Grant Administration
 - Subject to Uniform Guidance and Grant Agreement audit requirements
 - Single Audit - GAGAS Yellow Book /AICPA audit standards if expend over \$750,000/FY
 - Focus is on financial statements and program expenditures
 - Optional Internal Audit
 - Evaluate policies and procedures
 - Assess and evaluate internal controls
 - Evaluate program performance

OTHER GOVERNMENT CONTRACT AUDITS (CONT.)

- Service-Provider Contracts
 - Audit of rates, revenue, deliverables, payments
 - Often no audit standards specified
 - Examples
 - Tribal enterprises
 - Parking services
 - Ambulance services
 - Fleet management
 - Recreational facilities
 - IT support
 - Tax-sharing agreements

KEY TAKEAWAYS AND TIPS



Prepare for required contract audits



Consider conducting additional contract audits



Implement a contract audit program

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