

Audit Requirements for Non-Management and Operating Contracts



Guiding Principles

- Obtaining audit services is often called for by regulation, policy, or prudence.
- The auditor can play a vital role in supporting the Contracting Officer in source selection, pricing actions, and ensuring only allowable costs are reimbursed.

[References: [FAR 9.1](#), [FAR 15.404-1](#), [FAR 15.404-2](#), [FAR 31](#), [FAR 32.202-7](#), [FAR 42.1](#), [FAR 42.7](#), [FAR 52.216-7](#), [DEAR 915.404-2-70](#), and [Acquisition Guide Chapter 42.1](#)]

1.0 Summary of Latest Changes

This update: (1) provides information regarding an alternative to Defense Contract Audit Agency (DCAA) audit support that is available to Department of Energy (DOE) Contracting Officers, and (2) includes administrative changes.

2.0 Discussion

This chapter supplements other more primary acquisition regulations and policies contained in the references above and should be considered in the context of those references.

2.1 **Background.** DOE's large dollar value contracts are predominantly cost-reimbursement contracts. In establishing the price of such contracts (that is, the estimated cost and fixed/incentive/award fee) and administering them throughout their term, the Government's risk of overpayment lies in the costs actually reimbursed over the life of the contract. The Government does not reimburse estimated cost, but rather actual cost up to the cost-reimbursement contract's ceiling. The fee is small relative to the actual cost.

While selecting the offeror that will provide the best value in a competition for a cost-reimbursement contract and pricing the cost-reimbursement contract fairly and reasonably are important, reimbursing only costs that are allocable, allowable, and reasonable over the life of the contract is where a significant portion of the Government's financial concern lies.

Previously, the majority of DOE's contract dollars were obligated on management and operating (M&O) contracts for which DOE's Inspector General (IG) is the auditor and DOE's Chief Financial Officer (CFO) provides abundant financial and accounting support. DCAA's services were readily

available for the few other DOE contracts, which were typically of small dollar value. Now some large dollar value contracts are no longer M&O contracts; therefore the IG is not the auditor and the CFO is not necessarily involved. DCAA's services are not always readily available in a timely manner for audits of final indirect cost rate proposals (sometimes referred to as incurred cost proposals).

This guide chapter addresses how the Contracting Officer should view the vital role of auditors in: source selection in cost-reimbursement contracting; pricing actions for all contract types; and ensuring the Government is reimbursing only costs that are allocable, allowable, and reasonable during cost-reimbursement contract performance.

2.2 **Private Sector Audit Support Availability.** As an alternative to DCAA audit support, DOE/NNSA Contracting Officers may obtain audit services from a private sector provider of audit services. One available option is a Blanket Purchase Agreement (BPA) for audit services that is currently in place with CohnReznick, LLP. Orders for audit support can be placed by any DOE/NNSA Contracting Officer through individual awards issued against BPA DE- MA0011836. Each order placed against the BPA is awarded and administered by the field site Contracting Officer placing the order. For further information regarding placing orders for audit support with CohnReznick, LLP, please contact the BPA Contracting Officer's Representative (COR), Salem Fussell, at salem.fussell@hq.doe.gov.

2.3 **Requirements for Auditor Assistance.** Audits are necessary when significant incurred costs are involved or actual cost data on previous contracts exists and is relevant to the current contract pricing action. Audits should not be waived unless the data used to support determining the reasonableness of the price has been audited within the past year and cost/pricing reports from DOE pricing support personnel or Department of Defense contract management offices do not satisfy the audit requirement of DEAR 915.404-2-70.

2.3.1 **Responsibility Determinations.** FAR 9.1 "Responsible Prospective Contractors" requires the Contracting Officer to obtain from the auditor any information, when it is neither on hand nor readily available, required concerning the adequacy of prospective contractor's accounting system and the system's suitability for use in administering the proposed type of contract.

2.3.2 **Proposal Analysis.** The following are some applicable sections of the FAR and DEAR that indicate when audit assistance is required and useful during proposal analysis:

- 15.404-1 "Proposal Analysis Techniques"
- 15.404-2 "Data to Support Proposal Analysis"
- 915.404-2-70 "Audit as an aid in proposal analysis"

2.3.3 **Cost Accounting Standards.** For Cost Accounting Standards (CAS) covered contracts, FAR audit requirements of the contractor's CAS Disclosure Statement (if one is required) can be found in the following section of the FAR:

- FAR 32.202-7 "Determinations"

The cognizant federal agency appoints the cognizant federal agency official. The cognizant federal agency will normally be the agency with the largest dollar amount of negotiated contracts. It is responsible, on behalf of all federal agencies, for establishing final indirect cost rates and administering CAS for all contracts in a business unit. The cognizant federal agency official is responsible for determining whether the contractor's disclosure statement adequately describes its cost accounting practices. After determining the contractor's disclosure statement is adequate, the cognizant federal agency official is responsible for determining if the contractor's disclosed cost accounting practices comply with CAS and FAR Part 31.

The Contracting Officer may not award a CAS-covered contract until the cognizant federal agency official has made a written determination that any required CAS disclosure statement is adequate.

2.3.4 Contract Audit Services. The following is an applicable section of the FAR that regarding contract audit services:

- FAR 42.1 "Contract Audit Services"

Acquisition Letter (AL) 2008-02 "Audit Management" provides additional guidance to contracting officers on planning audits for other than M&O contracts, as well as other factors to consider when determining the extent of audit support to request.

2.3.5 Indirect Cost Rates. The following are some applicable sections of the FAR that provide rules and guidance regarding indirect cost rates:

- FAR 42.7 "Indirect Cost Rates" (covers both billing rates and final indirect cost rates)
- FAR 52.216-7 "Allowable Cost and Payment"

In addition, Acquisition Guide Chapter 42.1 "Indirect Cost Rate Administration" discusses the Department's procedures for the administration of indirect cost rates for contracts and financial assistance instruments.

2.4 Mechanisms Auditors Use to Ensure Claimed Costs Are Allowable. The amount of audit work required to verify that the Government is reimbursing only costs that are allocable, allowable, and reasonable for a particular effort depends on a number of factors, including, among other things, whether the contractor's accounting system has ever been determined adequate, the size, quality, and independence of the contractor's internal control staff, the complexity of the contract, how recently the contractor has been audited and what was audited, and the results of past audits. Less audit effort may be required for an established Government contractor with a large number of cost-reimbursement contracts and a good record of keeping its accounting system effective and its billings and cost incurred submissions accurate. Auditors have less work if they can rely on ongoing system audits, frequent invoice reviews, recent final indirect cost rate proposal audits, and a robust contractor internal control organization that has proven to be reliable. There are factors other than those mentioned above that could influence the amount of audit work required and auditors include all factors in the risk assessment performed for each audit assignment.

2.5 **The Role of the Contracting Officer**. DOE Contracting Officers are responsible for ensuring performance of all necessary actions for effective contracting and safeguarding the interests of the United States in its contractual relationships. In fulfilling these responsibilities, they have wide latitude to exercise their business judgment; however, they are required to request and consider the advice of specialists in other fields, such as auditors, when appropriate. Contracting Officers are members of the acquisition team, which consists of all participants in the acquisition, and, as such, are to exercise personal initiative and sound business judgment in providing the best value product or service to meet the customers' needs, while maintaining the public's trust and fulfilling public policy objectives.

DOE Contracting Officers generally must request and rely upon the advice of auditors, such as DCAA or private sector audit firms, in making a number of determinations under their non- M&O contracts. As good stewards of the taxpayers' dollar, they are obligated to maximize the return on the entire spectrum of the Department's resources devoted to audits and audit related efforts.

Contracting Officers should consider consulting with the DOE CFO, which typically possesses significant knowledge and experience in financial management and controls. In addition, Contracting Officers should also consider consulting the DOE IG, which possesses significant knowledge and experience in auditing, especially in maximizing the effectiveness of contractors' internal control systems in supporting audit work and reducing the need for and cost of audits.