

# Audit Ready: An Insider's Guide to Government Contract Audits & Compliance

*Presented by CohnReznick's Government Contracting Industry Practice*

**COHN**  **REZNICK**  
ACCOUNTING • TAX • ADVISORY

*Kristen Soles, CPA, Partner &  
Kiran Pinto, CPA, Senior Manager*

---

# PLEASE READ

*This presentation has been prepared for information purposes and general guidance only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice.*

*No representation or warranty (express or implied) is made as to the accuracy or completeness of the information contained in this publication, and CohnReznick LLP, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.*

*This presentation and its content are the property of CohnReznick LLP and are protected by applicable copyright laws. Any unauthorized use of the information herein will be considered a violation of CohnReznick LLP's intellectual property rights. Unless stated otherwise herein, no part of this presentation may be copied, distributed, or published, in whole or in part, without the prior written agreement of CohnReznick LLP.*

# AGENDA

- The Audit and Procurement Lifecycle
- Understanding Audit Risk
- Common Audit Findings Across Audit Types
- Knowing Your Rights and Effectively Managing Audits
- Assessing Audit Readiness

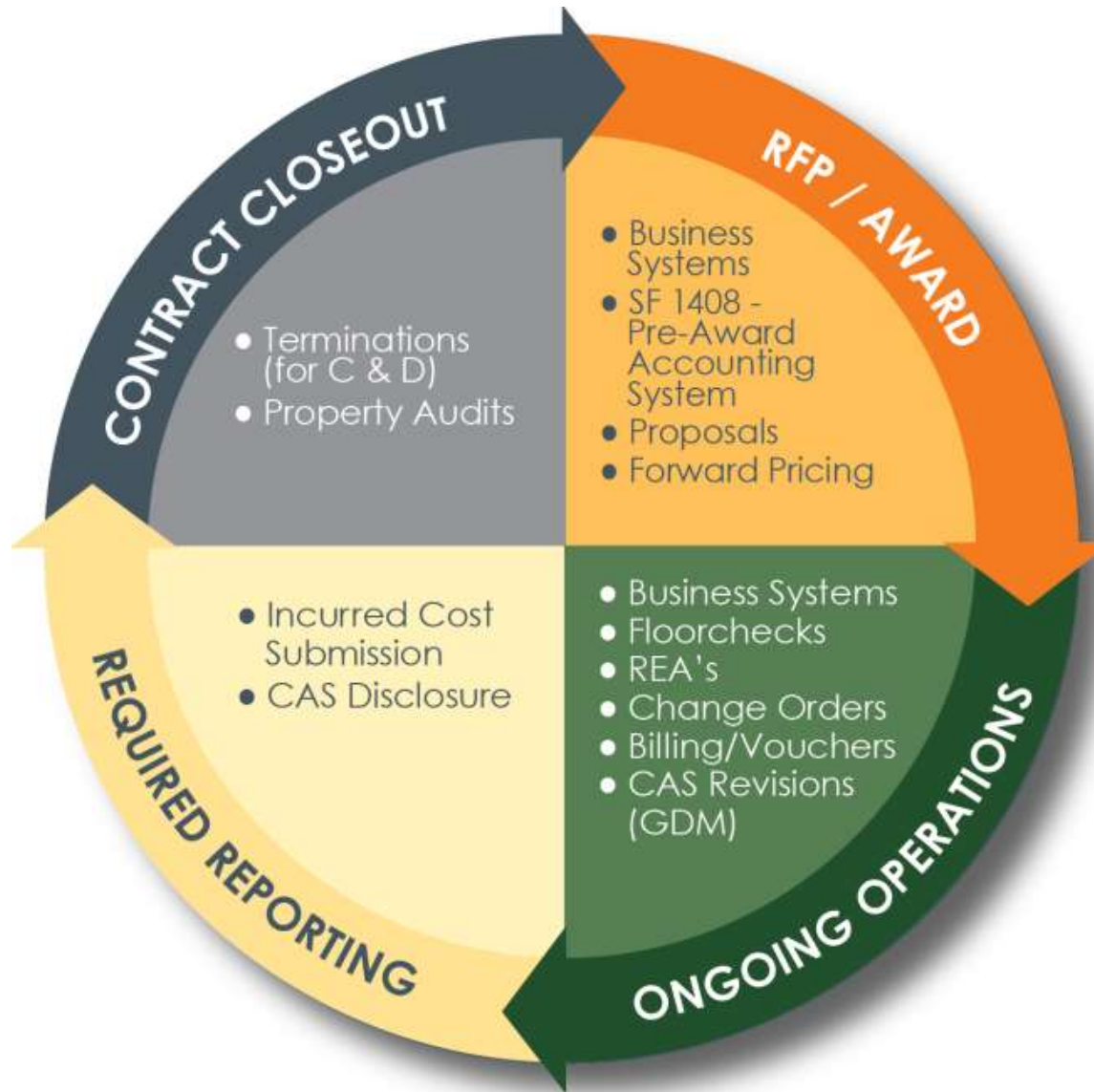
# Audit and Procurement Lifecycle

---

# WHY DO WE CARE ABOUT AUDITS?



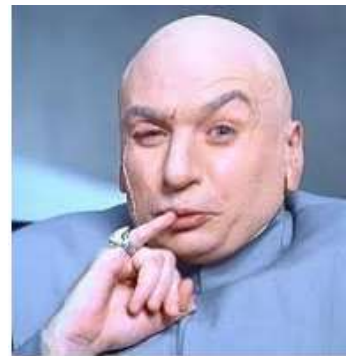
# THE REGULATORY AUDIT LIFECYCLE



# THE AUDITOR'S PERSPECTIVE



Proposal Audits, Business Systems



Terminations, Fixed  
Price Change Orders



Incurred Cost Audits

The background features several overlapping semi-circles in various shades of blue and grey, creating a layered, geometric effect. A thin, solid orange horizontal line runs across the bottom of the page.

# Audit Risk



# WHERE IS THE AUDIT RISK?

## Proposal Audits

- Competitive Flexibly Priced
- Fixed Price Sole Source
- Terminations / REA's

## Incurred Costs

## Business Systems

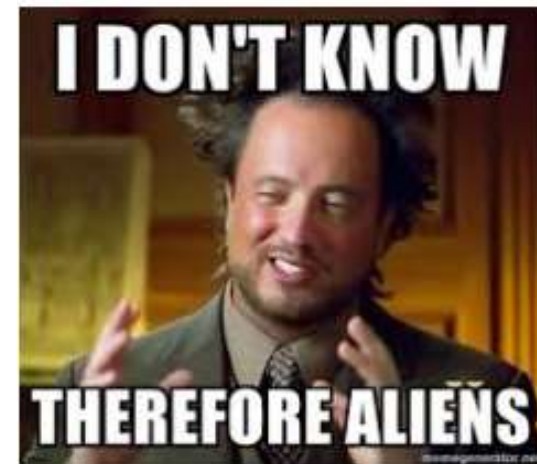




# Common Audit Findings

# PURCHASING SYSTEM FINDINGS

- FFATA non-compliance (no subcontractor certification; certification obtained post-award)
- Certification and Disclosure Regarding Payment to Influencing Certain Federal Contracts and Financial Transactions
- Debarment (formerly EPLS): System for Award Management (sam.gov) (formerly CCR)



# PURCHASING SYSTEM FINDINGS

- Truthful Cost or Pricing Data Act (TCPDA)(formerly known as TINA) non-compliance (no Certificate of Current Cost or Pricing Data when required)
- Inadequate price analysis
- Templates / Forms for consistency

# ESTIMATING SYSTEM FINDINGS

- Inadequate documentation of review and approval of cost estimates
- Incorrect use of historical data when preparing cost estimates
- Cost estimate updates not adequately documented and/or performed prior to negotiations
- Compliance with the requirements of FAR 15.408, Table 15-2 presentation requirements when preparing proposal
- Inadequate cost/price analysis performed on subcontracts (qualitative vs quantitative)

# PRICE ANALYSIS TECHNIQUES

**PER FAR 15.404-1, PRICE ANALYSIS IS THE PROCESS OF EXAMINING AND EVALUATING A PROPOSED PRICE WITHOUT EVALUATING ITS SEPARATE COST ELEMENTS AND PROPOSED PROFIT**

- Adequate Price Competition** → Summary of all offers received
  - Historical Price Comparison** → Evidence of last price paid (<6 months)
  - Catalog or Market Price** → Copy of catalog or price list
  - Similar Item Comparison** → Reconcile any price differences
  - Independent Estimate** → Document the details of estimate
  - Parametric Estimate** → Document the source of parametric data
  - Pricing information and determining cost realism** → Supplier sales history to other customers
- FAR 15.403-3**

# PROPOSAL AUDIT FINDINGS



- Not following the RFP!!!!
- Indirect Rates:
  - Escalation rates on indirect rates
  - Impact of award
- Proposing (subs that aren't used to cost buildup / rate buildup),
- What's disclosed in accounting policies or CAS DS does not match rates proposed
- Unsupported Costs / SME judgment

# PROPOSAL AUDIT FINDINGS

- Sales Tax or other adders / multipliers (freight / gross receipts / etc. etc.)
  - Factor or actual
  - Double count or not count at all
- Using assumptions that don't apply to the circumstances
- If technical approach affects cost factors notate that in the BOE
- Escalating historical prices to BY of contract
- Cost price analysis
- Math errors.



# REQUEST FOR EQUITABLE ADJUSTMENTS (REA'S) FINDINGS

- Annual REA with actual costs: Year-end accruals were included as actual costs, resulting in overstated price and rates.
- Indirect costs and rates not proposed in accordance with established practices (CAS 401), correctly, or not proposed at all.
- Offeror proposed costs using budget from original proposal, less actual costs, rather than estimating the true cost of work to be performed.

# REQUEST FOR EQUITABLE ADJUSTMENTS (REA'S) FINDINGS

- Math errors.
- Inadequate support to substantiate using historical costs as the BOE. Offeror unable to evidence how historical costs are related to the costs proposed.

# ACCOUNTING SYSTEM FINDINGS

- Inadequate / incomplete policies and procedures
- Not walking the talk (actual procedures and written P&Ps not consistent)
- Lack of consistent evidence of approvals
- Lack of proper supporting documentation
- Improper treatment of unallowable costs (and directly associated costs)

# ACCOUNTING SYSTEM FINDINGS

- Improper rate composition
- Contract briefs not maintained
  - Adherence to billing terms
- Lack of consistent timesheet controls
  - Time overrides not approved or done through journal entries

# INCURRED COST AUDIT FINDINGS

- Directly associated unallowables 31.201-6
- Parties and corporate events 31.205-13
- Legal 31.205-47
- Travel 31.205-46
- Trade Shows 31.205-43/ Advertising 31.205-1
- Executive comp (new rules), (2 sch B's) 31.205-6
- Bonuses 31.205-6
- Reorg costs 31.205-27

# INCURRED COST AUDITS FINDINGS

- LCAT qualifications on T&M's
- Rate proofs / trial balance reconciliations
- Inappropriate causal beneficial pools and bases
- Subcontractor oversight 42.202(e)(2)
- Sch J not tying to Sch H

# CAS AUDIT FINDINGS

- CAS 9904.401-50(a) – Insufficient details to support “significant” estimates that are overly simplified to avoid CAS noncompliance
- CAS 9904.402 & 418 - CASB-DS1 – Inadequate disclosure (i.e. explanation/narration of the cost classification) of how similar costs are treated directly versus indirectly under different circumstances
- CAS 9904.415 – Deferred Compensation is not properly accounted for and measured consistently when paid in money or other-than-money
- CAS 9904.409 – Not recording and tracking actual useful life and residual value of tangible assets
- CAS 9904.403 - Home office allocations utilize residual 3 factor approach for all costs without adequate documentation for consideration for other more precise allocation methods for specific costs.

# CAS AUDITS FINDINGS, CONT

- CAS 9904.410 - Exceptions to application of G&A are not adequately supported and may not result in adjustment to how G&A rate is calculated.
- CAS 9904.420 - Contractor's system does not appear to treat IR&D and/or B&P like project costs and apply all applicable burdens prior to inclusion in G&A pool.
- CAS 9903.302-2 – Understanding what constitutes a Cost Accounting Practice Change
- Not using continuation sheets



# TERMINATION AUDITS



# TERMINATION AUDIT FINDINGS

- Reclassification of Pre-Termination Costs – allowed where the allocation base is insufficient to allow for recovery of the cost
- Proper characterization and classification of “settlement costs” after termination (i.e. identifying and separating from other project costs, e.g. accounting, consulting and legal costs)
- Different cost requirements (i.e. applicability of FAR 31) between different types of contracts. Evidential matter to support cost information is treated differently under fixed-price contracts versus cost reimbursable contracts under FAR 49 and 12.

# TERMINATION AUDIT FINDINGS

- Application of profit applied based on performance indicators at the time of termination (i.e. percentage of completion)
- Difficulty in identifying and providing information in a timely manner post termination





# Knowing Your Rights and Working Effectively with Auditors

# AUDIT RIGHTS

## Per DCAA 10-PAS-024(R)

- Entrance Conference (purpose and overall plan and the types of books and records the auditor will need)
- Communications During the Audit
  - Preliminary findings (factual matters only for costs subject to negotiation) – you have the right to ask questions on status and preliminary findings
  - Denial of Access (always in writing)



# WORKING EFFECTIVELY

- Offer to have weekly meetings on outstanding items PBC list etc. Make sure all requested items to include follow ups are cleared.
- Put a point person in charge of audit follow up.
- Keep a copy of what is sent to the auditors (follow up questions is an indicator of QC's or findings) stay on top of these.
- Attitude towards the audit / withholding or delay of requested information within scope (risk and testing goes up, auditors dig in)
- Solicit real time feedback

The background features several overlapping semi-circles in various shades of blue and grey, creating a layered, geometric effect. A thin, solid orange horizontal line runs across the bottom of the slide.

# Assessing Audit Readiness



# WHO IS RESPONSIBLE?



# YOUR PIPELINE AND 5 YEAR GOALS HAVE AN IMPACT ON AUDIT READINESS

- Going from sub to prime?
- Large bids or schedules coming up for recompetete. What will there Business Systems requirements likely to be?
- Moving into flexibly priced, can your accounting system be relied upon?
- Moving into fixed priced, can your estimating system be relied upon?
- Are your business system audits out of date (stale) for upcoming RFP needs?
- Potential CAS trigger contracts on the horizon?
- M&A activity on horizon?

# AUDIT READINESS

- Mock audits – definitely for CPSR such a high failure rate
- Internal Audits potentially with an external supplement
- Business Systems internal audits
- Terminations – must have CPA firm / consultants / lawyers help prepare the claim – MAJOR delay in claim (4-6 years if not done correctly vs 12-18 mos with help)
- Policies and Procedures across the board, update annually and make sure it is what you do / report
- Review your RFP early for business system requirements – ask in the Q&A if you are unsure

# QUESTIONS/COMMENTS



# RESOURCES

## CohnReznick LLP

8000 Towers Crescent Drive, Suite 1000  
Tysons, VA 22182  
Main: 703-744-6700  
Fax: 703-744-6701

### **Kristen Soles, CPA, Partner**

kristen.soles@cohnreznick.com  
(703) 847-4411

### **Kiran Pinto, CPA, Senior Manager**

kiran.pinto@cohnreznick.com  
(703) 847-4458

**GovCon360<sup>®</sup>**

[www.govcon360.com](http://www.govcon360.com)

GovCon360 keeps you abreast of the ever-changing regulatory environment that is Government contracting. From reference materials, like searchable pdf copies of the FAR and DCAM, to our past Lunch and Learn seminar slide decks and thought pieces on industry matters, we've got it covered. Subscribe to our RSS feed to receive short alerts on recent industry changes. It's always been our job to help our clients maintain a competitive advantage by staying ahead of the curve. This website is an extension of the services we've been providing for over 35 years by putting useful resources and up-to-date information at your fingertips.