Strategies for Achieving Successful Audit Outcomes

Presented by:
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Agenda

• What is Success?
• Understanding and Impacting the Audit Process
• Strategies for Success
• Take Aways
Defining Success for Participants

- **Buying Activity/Contracting Officer**
  - Timely Information
  - Unbiased audit opinion(s) with sound basis in regulatory requirements, facts, and circumstances
  - Audit report includes appropriate information presented in the proper context to make informed procurement decisions

- **Auditor**
  - Performs a high quality audit that is effective, efficient, and complies with professional auditing standards
  - Well-supported conclusions and opinions (positive and negative)
  - Audit report that is useful to the Buying Activity and Auditee
Defining Success for Participants

• Auditee (Contractor)
  – Fair and objective analysis of facts and circumstances with reasonable interpretation of contractual/regulatory requirements given the business environment
  – Audit findings presented in appropriate context/perspective
  – Your comments are earnestly considered and properly presented
Types of Auditors

• Defense Contract Audit Agency (DCAA)
• Inspector General Agency Auditors (Defense & Civilian)
• Government Accountability Office (GAO)
• Private Sector Accounting Firms
• Prime Contractors
DCAA

• Background
• Mission
  – Defense Contract Audit Agency (DCAA), while serving the public interest as its primary customer, shall perform all necessary contract audits for the Department of Defense (DoD) and provide accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for procurement and contract administration.
• Resources
• Risk Based Approach
Types of DCAA Audits

- Incurred Cost Audits – 1919 (34%)
- Proposal Audits (e.g., cost proposals, forward pricing rates) – 1089 (19%)
- Special Audits – 1627 (29%)
- Other Audits – 1053 (18%)
- System reviews (e.g., internal controls, accounting, purchasing)
- Mandatory Annual Audit Requirements (MAARs)
- Compliance with time keeping controls – “floor checks”
- Post-award audits (“defective pricing” reviews)
- Compliance with CAS and Disclosure Statement adequacy
Audit Process

- Audit Standards – General, Field Work, Reporting
  - General Standards
    - Independence
    - Professional Judgment
    - Competence
    - Quality Control and Assurance
  - Field Work Standards
    - Internal Control Environment
    - Evidence
Audit Process

• Audit Criteria – FAR, CAS, A-122 Super Circular
• Audit Notification
• Entrance Conference
  – Audit Methodology – the How and Why
  – Materiality/Significant
  – Logistics of Providing Information
    • Establish expectations
  – Walkthrough
    • Your opportunity to show the auditors and contracting folks you have a well-managed and strong internal control environment
Audit Process

• In Process reviews
  – Address Issues before they are committed to writing
  – Missing Information (Facts, Considerations, Misunderstandings, Context)
  – Materiality/Significance
    • Qualitative/Quantitative
      – Why did the problem occur?
      – Nature of the problem
      – Dollar Value
  – Elevate issues
  – Start remediation if in agreement with the finding
Audit Process

• Exit Conference
  – Make sure you have an understanding of audit conclusions
  – Start your response
  – Engage Contracting Officer

• Draft Report
  – Respond to report with proper perspective
    • Evidence based
    • Lack of Adverse Effect
  – Final Report
    • Work with Contracting Officer
Strategies for Success

• Understanding the regulatory environment
• Understanding your risk profile
• Designing control structure to satisfy compliance requirements
  – Know what audits are likely to occur
  – Perform self-assessments
  – Findings/issues should not be surprises
• Prepare Sound Submissions
Strategies for Success

• Engage at critical points during the Audit
  – Entrance
  – Walkthrough
  – In Process Review
  – Draft Response

• Over Communicate
  – Reaching the appropriate levels in all organizations.
  – Findings/issues should not be surprises
Take Aways

• Be proactive and prepared
• Perform periodic internal reviews
• Communicate early and often with the government contracting and auditing personnel
  – Ideally before any issues arise
• Highlight how your control environment protects the government interest
  – Make it easy for the government to conclude you are a well managed responsible contractor
• Escalate within the Government organizations when necessary
Take Aways

• Keep commitments on providing information
• Prepare clear, concise, and professional responses to issues raised
  – Consider addressing:
    • Proactive actions already taken before the audit
    • Reasonable assurance versus absolute
    • Materiality/Significance – lack of adverse effect to the Government
• Contracting Office is the ultimate decision maker
  – Easier for everybody if you have the auditor on board ahead of time
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