

JULY 20, 2000
Responses to Questions Raised by Audit Firms

Note: Questions and Answers from last year's bid process are on the USTP WebPage at www.usdoj.gov/ust/ . See tab on Private Trustee Listings & Library; Chapter 13 Reference Materials; May 1999.

Q1. Is the "base period of performance" specified in Attachment A, 2(a), the audit field work period? What is the earliest date the standing trustees will be ready for final field work?

A1. Yes, the base period of performance (October 1, 2000, through January 31, 2001) is when the audit work should be performed. Some work may begin prior to October 1, 2000, but final field work cannot begin until the trustee has completed his annual report for the fiscal year.

Q2. Have the specified standing trustees in region 5 been previously audited and, if so, when could we review a copy of the last audit report, report on agreed-upon procedures and any letters of comments regarding findings or recommendations for improvement? Will the predecessor auditor work papers be available for review?

A2. Chapter 13 trustees have been audited yearly for a number of years. It would be logistically impractical, however, to make available copies of the ten audit reports to all the firms responding to the proposal. We understand that you have certain responsibilities under Generally Accepted Auditing Standards. Consequently, the successful bidder will be given two weeks to contact the prior audit firm and formally accept the engagement. The prior audit firm is under no contractually obligation to provide the successor audit firm with access to their work papers but if you have permission from the standing trustee, they may. The most frequent findings in region 5 in FY99 were lack of an accounting manual, stale dated checks, bank reconciliation process (such as whether trustee signed and timing, does not include finding that ledgers and bank did not reconcile), computer file access (passwords and access), and the expense account.

Q3. Have there been problems in the past getting annual reports from the trustees in a timely manner?

A3. Not to our knowledge.

Q4: May audit firms visit trustee offices prior to submitting the proposal?

A4: That will not be possible. Because of the number of bidders, contact with the trustees would be disruptive to the operation of the chapter 13 trust.

Q5. Please provide the names of the standing trustees and their senior management.

A5. That information will be provided to the successful bidder.

Q6. It is my understanding from the Request for Proposal that services for all ten standing trustees will be awarded to one firm. Please confirm.

A6. Yes, the successful firm will audit all ten standing trustees.

Q7. Is the Agreed-Upon Procedures report being issued under SAS 75, Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement, or under SSAE 4, Statement on Standards for Attestation Engagements?

A7. We are still discussing the format. We may continue to ask for a Prescribed Procedures report. If so, the statement of work will be clear where we want information reported versus only examined. For example, the phrase “report whether” means report in either event.

Q8. The Statement of Work at page 3 states that the auditor must determine materiality at different levels for the trust fund and for the expense accounts. Please specify what materiality level is required for each.

A8. Materiality should be determined by the auditor using AICPA guidelines for the desired results. This provision is intended to make the auditor aware of the two different aspects of the trust operation (the trust side and the expense side). The trustee may disburse \$50,000,000 from the trust account, the expense fund may only disburse \$750,000. Accordingly, the materiality of an error may present different results based on the materiality determined by the auditor. Also as a fiduciary, any irregularity in the trust side could result in less funds to unsecured creditors.

Q9. The Statement of Work at page 3 states that the auditor must send confirmation letters as required. Is the auditor required to send certain confirmations, such as to debtors or creditors, or is this left to the auditor’s discretion?

A9. Confirmations are left to your discretion.

Q10. What is the condition of the books and records of this region. Do the fiscal and interim financial statements agree to the detail general ledger? Do the individual debtor ledger balances agree with the general ledger balance of funds on hand? What financial and case tracking reports are prepared on a routine basis? Have the bank accounts been properly reconciled? Have the cases been reconciled with the bankruptcy clerk’s office?

A10. It is our understanding that the books and records are in satisfactory shape. If additional work is required, the audit firm may request that the Executive Office consider approval of additional fees.

Q11. Will the standing trustee's staff be able to assist with the work by preparing confirmations, pulling documents from files, responding to inquiries and providing other assistance as required?

A11. The degree of assistance that may be provided will depend on staffing. The number of employees in this region range from only five to over 30. Generally staff is available to pull records and answer questions. The audit firm and trustee would need to discuss anything beyond that.

Q12. What is the status of the technological needs in this region? Are they current?

A12. We believe so. The Program this fall will be instituting annual independent risk assessments that will look at computer security issues. These assessments will review approximately 20 trustees per year and the results will be available to their auditors. (They may not be available, however, in time for this first audit year.) In addition, the Executive Office for United States Trustees (EOUST), in consultation with the National Association of Chapter 13 Trustees, is developing a computer security training program for trustees.

Q13. Are there standard electronic data processing systems for each trustee? If so, are they connected or have online access to EOUST?

A13. Region 5 trustees use software provide by four major chapter 13 trust fund software vendors. The EOUST does not have access to those systems.

Q14. What audit fees were paid to the auditor for the prior year services?

A14. Audit fees ranged from \$6,250 to \$11,250. The median fee was \$8,750; the average was \$8,640.

Q15. What audit fees were paid to the auditor under the old Statement of Work?

A15. During the last year under the old SOW, audit fees ranged from \$5,000 to \$10,600. The median fee was \$6,300; the average was \$6,950.

Q16. This region appears to have had a number of audit firms over the last five years. Is there a problem bidders should know about?

A16. No. The original agreement that was bid in 1994 divided region 5 into two blocks which were awarded to two different audit firms. In 1998, one of the firms was not renewed for two specific trustees, although they were renewed for the remaining trustees. Those two trustees were awarded to another audit firm. In 1999, the five-year period was up for most of the trustees in the region and so we rebid the entire region. In 2000, we elected not to renew that agreement.

Q17. This proposal request appears to be geared toward medium to larger CPA firms. Will small audit firms (e.g., 4 employees) be considered?

A17. Our proposal review will include an evaluation of resources available to complete the work. If there are adequate resources available, then a small firm would be considered.

Q18. Exactly what information do we need to submit?

A18. There are three separate components to your bid: the Business, Technical and Cost proposals. Attachment B, Evaluation Criteria, provides instructions on these components.

Q19. Describe any recent or expected turnovers in accounting personnel and the effect on the accounting system.

A19. We do not have that information. The successful bidder could include this request in a questionnaire to the trustees.

Q20. Are there any existing or potential lawsuits?

A20. Not to the best of our knowledge.

Q21. Describe any other agreements and contracts that may have a significance to an audit?

A21. Each trust operation is run independently. The chapter 13 trustees use software created and maintained by third-party software vendors. They may have contracts with those software vendors. In addition, there may be contracts with financial institutions, equipment rental companies, consultants, etc.

Q22. Are we required to re-type the Agreement for Auditing Services as part of the Request for Proposal or are we simply required to sign it?

A22. You do not have to include the Agreement in your proposal. We consider the submission of and our acceptance of a bid offer to be binding. At that point, Agreements for each trustee will be sent to the successful bidder for signature.