

**TITLE: CIB 92-16 Preaward Audits and Surveys**

October 21, 1992

MEMORANDUM FOR ALL CONTRACTING OFFICERS AND NEGOTIATORS

TO: Distribution List FAC  
FROM: DAA/FA, John F. Owens, Procurement Executive  
SUBJECT: Preaward Audits and Surveys

**CONTRACT INFORMATION BULLETIN 92-16**

This CIB describes when and how to arrange for preaward audits and surveys.

A. Preaward Surveys (Contracts):

1. Definition and Conditions for Use:

A preaward survey is a tool that the Contracting Officer can use to acquire information in order to make a determination of a prospective contractor's responsibility. The Federal Acquisition Regulation (FAR) Subpart 9.106 defines a preaward survey as an evaluation by a surveying activity of a prospective contractor's capability to perform a proposed contract. The preaward survey contains information on the prospective contractor's financial competence and credit needs, the adequacy of their accounting system, and these systems' suitability for use in administering the proposed type of contract.

A preaward survey should be requested when the Contracting Officer does not have sufficient information to make a determination regarding the offeror's responsibility. Preaward surveys should normally not be requested if the contract will be \$25,000 or less or will be a fixed price contract of \$100,000 or less for commercial products. Factors to be considered in determining whether to initiate a preaward survey include:

- 1) The experience of the offeror (i.e., new firm or new area of work for the firm)
- 2) The past performance record of the offeror (i.e., prior unsatisfactory performance)
- 3) The adequacy of financial information submitted by the offeror (i.e., certified balance sheets and income statements, audited annual reports).
- 4) The dollar value of the procurement (i.e., large award or large award for the firm)

5) The U.S. Government audit history for the firm (DCAA, NFA, A-133, etc. audits) and any audit findings that the CO can readily ascertain.

Ultimately, it is the Contracting Officer's decision as to whether or not it is necessary to request a preaward survey.

2. Requests:

a. For U.S. Firms:

The Contracting officer should submit SF 1403, Preaward Survey of Prospective Contractor (General) through the Office of Procurement's Overhead and Special Costs and Contract Close-Out Branch (OP/PS/OCC) to the Office of the Inspector General's Financial Audits Division (IG/A/FA), along with a copy of the solicitation and a realistic deadline for receipt of the survey. (Normally preaward surveys can be expected to take approximately 30 days to perform.) See FAR 9.106-2 for complete details. The SF 1403 is authorized for local reproduction and a copy is furnished for this purpose in Part 53 of the FAR. In Blocks 19 and 20 on the SF 1403, you check in column (a) which factors you want investigated. Generally, auditors can be requested to respond to concerns regarding an offeror's financial capability, accounting system, NXP accountability system, etc. but not about technical and/or quality assurance considerations. The auditor will indicate the results of the survey in column (b), "satisfactory" or column (c), "unsatisfactory", as well as provide a description supporting the ratings. See attached sample request. The request should emphasize that this is a survey for responsibility, not a request for an audit of the direct cost proposal. The Contracting Officer may discuss preaward survey information with the offeror before determining responsibility. Preaward surveys are considered to be source selection information and should be protected accordingly.

b. For Non-U. S. Firms:

The Contracting Officer should submit the above identified information directly to the appropriate RIG.

B. Preaward Audits (Contracts):

1. Definition and Conditions for Use:

A preaward audit is a tool that the Contracting officer can use to acquire information in order to determine the reasonableness of the offeror's proposed cost or price. The preaward audit is a detailed analysis of the proposal, and contains information on the basis and method used by the offeror in proposal preparation, and any discrepancies in the way in which the cost or pricing data were used in

preparing the proposal. FAR 15.805-5 states that a preaward audit should be requested before negotiating any contract or modification resulting from a proposal in excess of \$500,000, when cost or pricing data are required. However, a preaward audit does not need to be requested when the information available to the Contracting Officer is considered adequate to determine the reasonableness of the proposed cost or price. Again, it is the Contracting Officer's ultimate decision as to whether or not it is necessary to request a preaward audit. Factors to be considered in determining whether to request a preaward audit include:

1) The available data is inadequate for determining the reasonableness of the offeror's cost proposal.

2) The offeror's estimating, accounting, or purchasing methods are not reliable.

3) The best interest of the Government will be served by an audit review, after giving consideration to the cost of the audit, type of audit and value of the proposed contract amount.

4) Any adverse audit findings, that the CO can readily ascertain, that disclose significant internal control problems and/or unresolved questioned costs.

According to FAR 15.805-5, preaward audits may be requested when the proposed contract or modification is less than \$500,000 when a reasonable pricing result cannot be established because of (1) lack of knowledge of the particular contractor, (2) sensitive conditions, or (3) an inability to evaluate the price reasonableness through price analysis or cost analysis of existing data.

## 2. Requests:

### a. For U.S. Firms:

The Contracting Officer should submit a request for a preaward audit through OP/PS/OCC to IG/A/FA. The request should (1) prescribe the extent of the support needed, (2) state the specific areas for which input is required, (3) include the information necessary to perform the review (such as the offeror's proposal and the applicable portions of the solicitation, particularly those describing requirements and delivery schedules), and (4) assign a realistic deadline for receipt of the report. (Normally, preaward audits can be expected to take a minimum of approximately 30 days to perform.) See FAR 15.805-5 for complete details. The request should also describe the reason for requesting the audit and include the name, address and phone number of the contact person at the firm. See attached sample request. FAR 15.805-5 (f) states that the auditor should not discuss the conclusions or recommendations in the audit report with the offeror.

Preaward audits are considered to be source selection information and should be protected accordingly.

b. For Non-U.S. Firms:

The Contracting Officer should submit the above identified information directly to the appropriate RIG.

C. Preaward Audits (Grants):

1. Definition and Conditions for Use:

A preaward audit is a tool that the Grants Officer can use to acquire information in order to make a determination of a prospective recipient's responsibility. Handbook 13 - Grants, paragraph 4D5, states that the preaward audit contains information on the adequacy of the prospective recipient's accounting, recordkeeping, overall financial management systems and internal controls system. When applicable, it also contains information on the property management system and procurement system. According to Handbook 13, paragraph 4D5, a preaward audit should be requested if the prospective recipient has not received a Federal award in the last five years or when the Grant Officer or Technical Officer is uncertain about the prospective recipient's capacity to perform technically or financially.

2. Requests:

a. For U.S. Organizations:

The Grants Officer should submit a request for a preaward audit through OP/PS/OCC to IG/A/FA. The request should describe the reason for requesting the audit, state the areas of the financial management system requiring review, include the prospective recipient's cost proposal, and assign a realistic deadline for receipt of the report. (Normally, preaward audits can be expected to take a minimum of approximately 30 days to perform.) It should also include the name, address and phone number of the contact person at the institution. See attached sample request. In accordance with Handbook 13, paragraph 1L, the IG's office will advise the Grants Officer of the adequacy of the financial management system and include recommendations for correcting nonconformance to system standards. Per paragraph 4D5, audit findings regarding grantee nonconformance to system standards shall be referred to OP/PS/OCC for resolution.

b. For Non-U.S. Organizations:

The Grants Officer should submit the above-identified information directly to the appropriate RIG.

D. Increased Usage Encouraged:

Insufficient use of preaward audits and surveys has been cited as a weakness in A.I.D.'s procurement process by both the IG and GAO. Preaward audits and surveys have not been widely requested by A.I.D. Contracting Officers in the past few years due to perceived delays in receiving reports, according to a recent report by the IG. The IG's office has assured the agency of a 30 day turnaround on requests for preaward audits or surveys. This is based on a Memorandum of Understanding that the IG's office has with the Defense Contract Audit Agency (DCAA), guaranteeing a verbal report within 30 days of receipt of request at DCAA. The IG's office gives preaward audit/survey requests first priority, forwarding requests to the DCAA field office within 48 hours of receipt, and advising them by phone of its coming. Contracting Officers at missions are advised to use the fastest way possible to forward all necessary information, including proposal and solicitation, to OP/PS/OCC. While DCAA often provides the verbal report directly to the Contracting Officer, the written report is issued to the IG. The IG performs a desk audit of the preaward audit and issues a transmittal report with it to the Contracting Officer.

IG/A/FA handles preaward audits and surveys for all U.S. firms, both for - profit and nonprofit. All of the preaward audits and surveys are performed by DCAA or non Federal auditors. The IG's office provides the funding. Contracting Officers at missions and headquarters are encouraged to utilize this capability for preaward audits and surveys when necessary.

Attachments:

Sample Requests:

- A. Preaward Survey (Contracts)
- B. Preaward Audit (Contracts)
- C. Preaward Audit (Grants)

SAMPLE A.

August 15, 1992

MEMORANDUM

TO: IG/A/FA, Reginald Howard, Director

THRU: FA/OP/PS/OCC, James J. Deery

FROM: FA/OP/A/EE, Diane M. Miller

SUBJECT: Request for Preaward Survey for Proposed Contract with ABC, Inc.

Attached is SF 1403, Preaward Survey of Prospective Contractor (General), requesting that a survey be performed of ABC, Inc. This firm is in the competitive range for an award resulting from solicitation No. OP/A/EE-92-P-001. Also attached is copy of the solicitation. The areas in which we are seeking more information are indicated on the form. This request is for a survey for information necessary for determining responsibility; it is not a request for an audit of the direct cost proposal. We would greatly appreciate receiving the report by September 15, 1992, as the anticipated date of award of the proposed contract is September 25, 1992. Thank you for your assistance in this matter.

Attachments:

Solicitation No. OP/A/EE-92-P-001  
NOT ATTACHED TO ELECTRONIC VERSION - Form SF 1403

SAMPLE B

August 15, 1992

MEMORANDUM

TO: IG/A/FA, Reginald Howard, Director

THRU: FA/OP/PS/OCC, James J. Deery

FROM: FA/OP/A/EE, Diane M. Miller

SUBJECT: Request for Preaward Audit for Proposed Contract with XYZ Corporation

This is a request for a preaward audit of the cost proposal submitted by the XYZ Corporation in response to FA/OP/A/EE Solicitation Number OP/A/EE-92-P-032. This firm is in the competitive range for the award of the proposed contract which will be in the approximate dollar amount of \$1,500,000.

It is requested that all aspects of the direct costs proposed be reviewed. A Negotiated Indirect Cost Rate Agreement exists for this firm which establishes provisional indirect cost rates for the proposed contract period, thus there is no need for the preaward audit to focus on that aspect of the proposal.

The following documents are attached to this request for use by the auditor(s) in their review.

- 1) Solicitation OP/A/EE-92-P-032
- 2) XYZ Corp. Cost Proposal dated July 1, 1992

We would greatly appreciate receiving the report by September 15, 1992, as the anticipated date of award of the proposed contract is September 25, 1992.

If you have any questions, please contact Mr. John Adams of my office at (703) 875-1122. Thank you for your assistance in this matter.

Attachments:

- RFP# OP/A/EE-92-P-032  
XYZ Cost Proposal dated July 1, 1992

SAMPLE C

August 15, 1992

MEMORANDUM

TO: IG/A/FA, Reginald Howard, Director

THRU: FA/OP/PS/OCC, James J. Deery

FROM: FA/OP/A/EE, Diane M. Miller

SUBJECT: Request for Preaward Audit for Proposed Grant to the ABC Foundation

The ABC Foundation has not received an award from the U.S. Government within the last five years. The proposed grant by A.I.D. is for a three year period in the amount of \$2,000,000. The prospective recipient's address and point of contact is as follows:

The ABC Foundation  
225 Main Street  
Anytown, VA 22100

Contact: John Doe (703) 123-1234

This preaward audit of the financial management system is requested pursuant to Handbook 13 - Grants, paragraphs IL and 4F5. Areas of specific concern are whether the ABC Foundation will have:

- 1) a separate accounting system under the proposed grant that will adequately identify, segregate, accumulate, and record all costs, and
- 2) an adequate indirect cost recovery system and provisional indirect cost rates.

Attached is the ABC Foundation's cost proposal. We would greatly appreciate receiving the report by September 15, 1992, as the anticipated date of award of the proposed grant is September 25, 1992.

If you have any questions, please contact Mr. John Adams of my office at (703) 875-1122. Thank you for your assistance in this matter.

Attachments:

Cost Proposal of ABC Foundation