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The Procurement & Performance Of Audits Of Government Organizations & Programs



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Report of Colloquium held in Cherry Hill, New Jersey
November 5, 6, and 7, 1980

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This colloquium was designed to explore the views of CPAs and government officials on means for improving their relationships on audits of government organizations and programs. It was conducted under the joint sponsorship of the American Institute of Certified Public Accountants (AICPA) and the U.S. General Accounting Office (GAO). The views expressed in this document do not represent an official position of the AICPA or the GAO.

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INTRODUCTION

.Because of the proliferation of Federal grant programs in recent years, government agencies have substantially increased their use of certified public accountants to perform financial and compliance audits of funds provided to grantees or other program benefactors. As this relationship between CPAs and the government has developed, certain problems have arisen between some government agencies and CPAs engaged by them principally in the areas of the propriety of current contracting procedures and the adequacy of auditor performance.

To obtain the views and suggestions of CPAs and government officials on ways to improve their relationships on audits of government organizations and programs, the Accounting and Financial Management Division of the General Accounting Office and the Subcommittee on Relations with the GAO of the American Institute of Certified Public Accountants sponsored a colloquium on the procurement and performance of audits of Federally assisted programs. The colloquium was held at the Cherry Hill Inn, Cherry Hill, New Jersey, on November 5, 6, and 7, 1980.

Representatives from the government and the accounting profession were invited and assigned to colloquium discussion groups based upon their interest, experience, and background. Appendix A provides a list of the colloquium participants.

The discussion groups considered issues that were outlined in background papers distributed prior to the colloquium. The issues were grouped under the following broad headings:

Procurement Procedures and Contract Terms. Two discussion groups studied the appropriateness of the methods currently used to contract for the services of CPAs.

Qualifications and Technical Evaluations of Auditors. Three discussion groups addressed those qualifications of CPAs that are relevant to an evaluation of their ability to perform a government engagement and the means by which those qualifications can be properly evaluated.

Another aspect of audits of Federally assisted programs was addressed by a third group of individuals and presented to the participants at a plenary session on the last day of the

colloquium. The presentations related to Factors Affecting an Evaluation of Auditor Performance. The presentations included a review of auditing standards for financial and compliance audits of Federal grant programs, the methods used to conduct post-audit reviews of work performed by CPAs, and disciplinary mechanisms or other procedures being considered to achieve quality performance on government engagements.

The colloquium was opened in a general plenary session with presentations by the Honorable Elmer B. Staats, Comptroller General of the United States, and Philip B. Chenok, President of the American Institute of Certified Public Accountants. Following the plenary session, the five discussion groups met in concurrent sessions to examine the issues assigned to them, arrive at conclusions, and develop specific recommendations for future action. On the morning of the second day, two separate sessions were held, one consisting of all of the discussion groups studying the Qualifications and Technical Evaluations of Auditors and the other of those studying Procurement Procedures and Contract Terms. They discussed the conclusions and recommendations that had been developed the previous day and formulated position statements. The position statements were presented to the other discussion groups on the afternoon of the second day for further discussion. This procedure ensured that all the participants could comment on each of the issues discussed.

This document presents the opinions of the participants on the ways to improve their relationships on audits of government organizations and programs. It includes the background material distributed to the participants prior to the colloquium and the discussions, conclusions, and recommendations developed at the colloquium. Some repetition in the discussion of a number of issues was inevitable. We ask your indulgence since, in this case, repetition evidences a high level of concern.

Discussion groups were given the freedom to explore not only the issues and questions outlined in the background material but also any other issues raised in the course of the discussions. Some issues and questions were determined to be without merit; therefore, not all the issues are addressed in the recommendations. However, it should be emphasized that the purpose of the colloquium was not to resolve problems associated with audits of Federally assisted programs but to develop recommendations that could lead to the improvement of relations between the government and CPAs.

II

SUMMARY OF COLLOQUIUM RECOMMENDATIONS

The following is a summary of the recommendations included in the more detailed report which follows. For convenience, the summarized recommendations have been cross-referenced to the detailed discussion (D) of the issues and the participants' complete recommendations (R).

Even though the individual recommendations refer to specific organizations that could be charged with the responsibility for implementation, the colloquium organizers felt that a coordinated effort would be the most effective way to implement the recommendations of the discussion groups. Accordingly, the representatives of the GAO Accounting and Financial Management Division and the AICPA Subcommittee on Relations with the GAO have agreed to provide such coordination.

Although there was no intention to change the substance or priority attached to specific recommendations, the organizing committee edited the document in an attempt to present a concise overview of the colloquium's findings. The participants' recommendations can be grouped into the following three major areas.

I. Preparation of a Guide to Effective Procurement of CPA Services by Government

A guide should be prepared and published jointly by the AICPA and the GAO that will provide assistance in the preparation of requests for proposals and other important aspects of the procurement process. The guidelines should include among other pertinent areas

- Information to be included and factors to be considered in preparing requests for audit proposals. See pages 22(D), 24(R), 52(D), and 55(R).
- Appropriate methods and types of contracting procedures to be used in procuring the services of CPAs and the circumstances in which each can be appropriately used. See pages 25(D) and 33(R).
- Technical evaluation criterion that are considered acceptable to government entities and the AICPA and deemed necessary to assure the selection of qualified auditors and the performance of quality audits. See pages 43(D) and 46(R).

- Guidelines to be used by government entities in evaluating the technical qualifications of those proposing to perform audits of government programs or organizations. See pages 52(D) and 55(R).
- Guidance to government entities on the type of background that proposal evaluators should possess to properly assess the relative merits of proposals from competing CPAs. See pages 52(D) and 57(R).

The Western Intergovernmental Audit Forum's Guidelines for Preparation of Requests for Audit Proposals was viewed by the participants as a particularly timely and effective publication. While some recommendations were made to improve the guidelines, they clearly represent a notable contribution to improving the understanding of the procurement and audit environments. The provisions of that publication should be considered for incorporation into the recommended procurement guide.

II. Enhance Existing Procurement Practices

Once developed and published, the recommended procurement guidelines should be followed to the extent practicable. In addition, the participants agreed that additional efforts should be made to ensure that appropriate recognition be given to the following practices considered "key" to the engagement of qualified auditors and the performance of quality engagements:

- The quality of audit services previously performed for the government should be an important factor in evaluating a CPA's qualifications. While program knowledge may be demonstrated through continuing education or by other means, the quality of services previously performed by a prospective contractor should be an important consideration in evaluating a proposal. See pages 52(D) and 56(R).
- In evaluating a proposal, significant consideration should be given to the government-oriented continuing education courses taken by members of the proposed engagement staff. See pages 61(D) and 65(R).
- Proposals to provide audit services should be evaluated by individuals with an appropriate background and experience in auditing. See pages 61(D) and 65(R).
- Government personnel involved in the procurement and evaluation of proposals for audit services should be encouraged to participate in government-oriented

continuing education programs related to the area of proposed procurement. See pages 61(D) and 65(R).

III. Continuing Professional Education Requires Improvement

The participants agreed there is a need to re-examine the entire area of government-oriented continuing education. Courses need to be re-evaluated and timely instruction should be provided to practitioners, government auditors, and program procurement personnel. Specifically, the participants recommended that the following actions should be taken:

- The AICPA should establish a special CPE coordination task force to monitor and coordinate the efforts of the various professional organizations and government agencies involved in developing and scheduling courses in government accounting and auditing. See pages 61(D) and 64(R).
- The Association of Government Accountants should be commended for their project to develop "A Common Body of Knowledge for Government Accountants." Further, they should be encouraged to complete the project as soon as possible and to seek the endorsement of the final product by the AICPA, the Municipal Finance Officers Association, the Institute of Internal Auditors, and other affected professional organizations. See pages 61(D) and 63(R).
- Periodic technical conferences or continuing education programs should be conducted under the sponsorship of the AICPA for members of the AICPA, GAO, OMB and the Inspectors General staffs to foster a better understanding of the profession's generally accepted auditing standards and the additional government audit standards expected to be performed on audit engagements. See pages 61(D) and 65(R).
- Steps should be taken to identify appropriate government accounting and auditing courses that should be included in college and university accounting curriculums. Such courses should be included in the AICPA policies for academic preparation. It was also recommended that the American Accounting Association be encouraged to place more emphasis on government auditing and accounting courses in college and university curriculum. See pages 61(D) and 65(R).

- The Uniform CPA Examination content specifications should, at an early date, include knowledge of Standards for Audit of Governmental Organizations, Programs, Activities and Functions, Guidelines for Financial and Compliance Audits of Federally Assisted Programs, and OMB Circular A-102, Attachment P. See pages 61(D) and 65(R).

You are encouraged to review the entire report to better understand the background, nature of discussions, conclusions, and specifics supporting each recommendation.

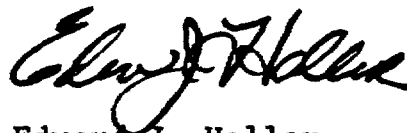
As indicated in the opening statement in section VI, a number of actions have been taken subsequently by the GAO and the AICPA in response to the procurement and performance deficiencies discussed at the colloquium. These actions, together with the recommendations included herein, are expected to have a significant effect on correcting the deficiencies.

We thank and commend the participants for the many hours of thoughtful and probing discussions that led to these very substantive and important recommendations.

The organizing committee pledges to seek timely implementation of these recommendations in the belief that they collectively represent the basis for substantially improved attitudes and relations.



Donald L. Scantlebury
Chief Accountant, General
Accounting Office



Edward J. Haller
Chairman, Subcommittee on
Relations with GAO

III

INTRODUCTORY REMARKS

Presentation

of

Elmer B. Staats

Comptroller General of the United States

Auditing Federal assistance programs is an important part of the government's stewardship over Federal funds. Between 85 and 90 billion Federal dollars currently go into these programs annually and the Federal government has a responsibility for seeing that these funds are spent for the purposes for which Congress authorized them and that they are spent with due regard for economy, efficiency, and effectiveness.

The government system for overseeing Federal assistance programs relies very heavily on audit. Audit is the basic tool that we use to see whether funds were properly handled. Government managers want more out of audits than just an auditor's opinion of whether the financial statements are accurate. They want to know that the auditor has examined internal controls and made recommendations to correct whatever problems he finds with such controls. They also want the auditor's working papers to be available in case questions arise after the audit that cause us to want to look into the grantee's affairs again. In addition, they want the auditor to recognize that, although he may be hired by a local agency, the bill is being paid in part or fully by the Federal government, and the Federal government, therefore, is also his client.

Government auditors owe much to the accounting profession. Our roots are clearly with that profession, and we still share many things in common, such as the way we organize our staffs and, in some cases, the titles we use to identify different levels of responsibility.

Although government auditors have a strong heritage from public accounting, they have had to learn many different approaches to their work to accommodate the many differences between public and private organizations. Some of these differences result because the public sector focuses on serving its citizens by operating programs to protect their health, welfare and safety while private sector organizations focus more on

profit making. Other differences occur because governments are controlled by firm budgets and limitations on expenditures while private companies have far more flexibility in these areas. Still further differences exist because government accounting is focused more on short term fund availability and compliance with authorization to spend while the private sector is more concerned with the long-term viability of its organizations.

These differences seem to have led to problems between the government and the public accounting profession. We in government need you and your work because we simply don't have enough auditors to do all that needs to be done. Moreover, there are many advantages to having some of the government's audit work handled by public accountants. Unfortunately, the help we get isn't always satisfactory to us or to you.

The reasons for this are varied. In many cases, we in government don't seem to be communicating what we want as effectively as we should. Consequently, the results of the work don't satisfy our needs. Public accountants often assume that an audit that is good enough for their commercial clients is good enough for government without considering the government's special requirements. In this respect, I might say that certain CPAs have told us that some of the special requirements the government has put in its audit guides have been regarded disdainfully by CPAs. They don't see these requirements as necessary to giving an opinion on the financial statements, so they don't consider them important. To the government, these special requirements may be more important than the CPA's opinion.

We recognize that separate audit guides and the special requirements they contain have been a problem for CPAs, and as you know we have issued a standard audit guide to make grant auditing easier. However, this audit guide also contains some requirements for work that a CPA might not perform if he were only concerned with giving an opinion on financial statements, and we consider this additional work important and necessary.

Other problems that have cropped up include regional government auditors interpreting Federal requirements differently from their headquarters units and differences in the meanings given to words used by government auditors and public accounting practitioners.

Further, government is accused of putting price first and technical proficiency second in its award processes. The public accounting profession is accused of a higher percentage of sub-standard work than is deemed reasonable.

The job of those of you here today is to reach solutions to the many problems that exist in our mutual relationship. How can we get a better understanding by all parties concerned of government needs? How can we do a fairer job of compensating public accounting firms for the work they do for us? How can the sub-standard performers be brought up to standard performance levels?

We need answers to these problems and our charge to you is to help us find them. If you can give us the answers, we in government will do our best to see that changes are made in government procedures to turn your solutions into a reality.

Presentation
of
Philip B. Chenok
President, American Institute
of Certified Public Accountants

I'd like to thank each of you for taking the time from your busy schedule to participate in this colloquium, and I congratulate those of you who are responsible for arranging it, especially your co-chairmen, Ed Haller and Don Scantlebury. Meetings like this afford a fine opportunity for interchanging ideas, for improving communications between people with different perspectives, for building an understanding among the participants that many of their problems are mutual, and for developing meaningful and practical suggestions for improvement. I am sure that this forum will be a success on all these counts.

I am especially glad to be here to participate in these sessions with you. It will be my aim in talking to you today to give you some idea of our past and present initiatives relative to audits of Federally assisted programs and to state unequivocally that the AICPA is committed to taking any and all appropriate steps to improve the quality of the work performed by its members and to discipline those who violate ethical and auditing standards.

I believe that the discussions for the next two-and-a-half days should be directed primarily towards developing recommendations and suggestions to benefit the future rather than concentrating on past mistakes and problems; however, we must analyze the past to learn its lesson for the future. I will look back briefly and recount a few events that are directly related to this colloquium.

In 1973, in response to a GAO study that cited examples of substandard work, the AICPA instituted an ethics enforcement program whereby Federal agencies receiving alleged substandard work from CPAs would submit the reports to the AICPA Professional Ethics Division for appropriate action. For various reasons, over a seven-year period the AICPA received only twenty-three cases over which the Professional Ethics Division had jurisdiction.

In 1979 the GAO did another review of three Federal agencies and found other examples of substandard work. Wally Olson, then

President of the AICPA, met with Elmer Staats and members of his staff, as well as representatives of the accounting profession, to discuss the implications of alleged substandard work. Mr. Olson decided that the AICPA would embark on an active ethics enforcement program to identify and discipline CPAs who were not adhering to their professional responsibilities.

On November 1, 1979, at the suggestion of Elmer Staats, the chairman of the AICPA Professional Ethics Executive Committee, Ed Lamb, and other members of the AICPA met with all of the inspectors general or their representatives, as well as the GAO and OMB, to present the AICPA's program and to solicit their participation and support. The program was unanimously accepted and applauded. Ed Lamb will report to you in greater detail on the current status of this program.

That concludes my brief look into the past, and I would now like to look ahead. One of my goals as president of the AICPA is to reduce substandard performance by increasing our efforts in standard setting, quality control, and enforcement.

The extent of substandard performance is not precisely known. Poor audits receive unfavorable publicity, but the thousands of good audits performed annually receive no attention. This is how it should be because the client expects, pays for, and should get a quality audit. I am sure we will hear a number of examples of substandard work during this meeting. I hope that they are the exceptions and not the norm. Since human failure is the ultimate cause of poor performance within a profession, we cannot eliminate the problem completely; but we can constantly strive to reduce the number of cases.

One characteristic of a profession is that it seeks to regulate and improve the quality of practice. The system of regulations of the public accounting profession includes four elements:

- Establishing high standards of skill and competence both for entering the profession and for retaining the right to practice.
- Developing and promulgating technical and ethical standards that serve both as performance goals and as means of measuring departures.
- Designing and implementing quality control policies and procedures to monitor and encourage compliance with the technical and ethical standards.

- Maintaining an effective disciplinary system to impose penalties for performance or conduct that departs from established standards.

In recent years we have devoted considerable effort to self-regulation by setting more rigorous technical and ethical standards and designing and implementing better measures to control quality. For example, we have formed a Division for CPA Firms which requires, among other things, that all member firms have a peer review once every three years. Through the Division for CPA Firms, the Institute now has the ability to penalize firms, whereas previously it could only discipline individuals. In addition, we reorganized the Institute's Auditing Standards Division and formed an Auditing Standards Advisory Council to provide the Auditing Standards Board with the perspective of people outside the public accounting profession, and our CPE Division is developing a number of programs related to auditing for government entities. On Friday Ed Lamb and Jim Leisenring will tell you more about what's going on in the Professional Ethics Division and the Auditing Standards Division. These efforts have been impressive and have demonstrated our sincere concern to do a good job. But much remains to be done if we are to reach all practitioners and ensure that we are all playing by the same rules.

In closing I'd like to thank you on behalf of the accounting profession for participating in the effort. I ask you to look at each issue objectively and fairly, to develop meaningful and practical suggestions, and to join together to improve the process. Collectively, we can do it! Thank you.

IV

PROCUREMENT PROCEDURES
AND CONTRACT TERMS

THE PROBLEMS AND ALLEDGED CAUSES

The Perceived Problems

Certified public accountants (CPAs) provide a wide variety of professional accounting and auditing services to the Federal government, as well as to state and local governments and other grantees receiving Federal funds. In recent years, the involvement of CPAs in government auditing has increased as a result of the proliferation of grant programs and their associated audit requirements. Such programs bring with them a desire on the part of the Federal granting agency, for grantee accountability for the disposition of grant funds. The principal way to obtain this accountability is through the audit process, and CPAs have become an important element in this process.

The grant audit process has not been without problems, one of which concerns the manner in which contracts have been awarded for such audits. When government or other grantee procurement officials receive a number of bids or proposals from reputable CPAs to provide an accountant's opinion on the financial statements of a grantee or other organization, they often allege that they have little basis for deciding among CPAs except on the basis of price. Another problem arises when practitioners bid low--or "buy in"--on a contract to gain experience and a competitive advantage in subsequent procurements. This sometimes leads to cutting corners during the audit, which can produce substandard work.

Moreover, government officials often require audit scope and objectives that are different from the scope of work CPAs traditionally provide for their commercial clients. A number of CPAs do not seem to understand the seriousness of failing to follow Federal agency audit guides and the auditing standards set forth by the Comptroller General. They often ignore work required by such guides, rationalizing that it is not considered necessary for the expression of an opinion on grantees' financial statements. This has led to misunderstandings and claims of substandard performance on some audits.

There are other problems in the relationship between the government and the CPAs they hire to perform their work. Although a grantee may be empowered to hire a CPA to audit a government grant, the auditor may be paid with Federal funds and be expected to meet Federal audit requirements. This appears to establish a different client relationship than the one to which auditors are usually accustomed, and, as a result, there may be confusion about their responsibility to the Federal government. Furthermore, the government requires that a CPA's working papers be available for its review. (The government may subsequently perform economy and efficiency audits or program results reviews of the audited organization, using the CPA's work as a base.) This, too, differs from the experiences CPAs encounter in the private sector.

The Perceived Causes

Practitioners have expressed a wide spectrum of criticism of the Federal procurement process. A major criticism is their displeasure with the high degree of reliance that the government places on fixed-price contracting, often in areas in which audit efforts do not appear to be subject to reasonable time estimates. Some practitioners believe that this procedure emanates principally from a lack of understanding of the financial audit process and the wide spectrum of variables that can be involved in determining the scope and, accordingly, the efforts required to perform a financial examination or a financial and compliance examination. The problems inherent in fixed-price fee estimation are exacerbated by the government's frequent denial of access to the auditee's records and personnel for the purpose of formulating initial judgments about the quality of records and personnel, judgments that are crucial to the estimation process. Further, it is maintained that the Federal procurement regulations provide for cost reimbursement and other variations of fixed-price contracting that are not fully and effectively used by government contracting officers.

Some practitioners are also concerned that much of the alleged dissatisfaction with the quality of audit work performed results principally from a lack of appropriate communication of the government's desired audit objectives. Further, it is suspected that misuse of, or lack of agreement on, terms such as audit, compliance, and standards fosters further misunderstandings. These suspicions are fueled by the experiences of many practitioners who have received conflicting interpretations of Federal program audit guides and other procedural requirements from different people, often within the same Federal government agency.

Some CPAs have reportedly withdrawn from the Federal government audit marketplace in response to what they consider to be contracting conditions that do not permit the exercise of an appropriate level of professional performance for a reasonable level of compensation. Others have concluded that there are too many audit guides, interpretations, reviewers, and critics and too little effective communication among grantor agencies, the auditor, and the auditee.

Areas to be Examined

In advance of the colloquium, a discussion paper was provided to attendees summarizing issues that many representatives of the profession and the government feel warrant further investigation and analysis. (The substance of that discussion paper is included in the next section, Background.) The two discussion groups assigned to procurement procedures and contract terms explored

- The appropriateness of the current methods of contracting for services and whether contracting procedures are properly utilized.
- Selection of the appropriate method for compensating auditors for the work to be performed and selection of the appropriate contract terms.

Because the areas assigned to the two discussion groups were so closely related, the resulting discussions have been merged in this document.

BACKGROUND

Current Procurement Procedures and Matters Relating to Their Implementation

The area of Federal government contracting is by no means simple for even experienced hands to master. Lawsuits and court of claims cases continue to pursue interpretations of many provisions of the Federal procurement regulations. Therefore, before we venture further into a discussion of contracting problems, a fundamental discussion of basic contracting procedures appears appropriate. The discussion will include

- The contracting options available under current regulations.
- How they are applied in the procurement of CPA services.

- Alternative procurement procedures currently being practiced within, or outside of, the Federal government.

In a broad sense, government procurement methods are divided into two categories: formal advertising and negotiation.

Except in rare cases in which sole-source procurements can be justified, all government procurements are widely publicized to ensure that all interested contractors are provided an opportunity to compete for the providing of government goods or services.

Formal Advertising--Fixed-Price

The government's policy is to use formal advertising whenever feasible and practicable. In reality, this method is generally limited to the procurement of off-the-shelf items. When formal advertising is used, the government prepares and publicizes invitations for bid (IFBs). Prospective contractors submit sealed bids, which are opened in public, and the contract is generally awarded to the lowest bidder.

Formal advertised contracts are usually awarded on a firm, fixed-price basis, but they also may include escalation clauses. A firm, fixed-price contract provides for a price that cannot be adjusted because of the contractor's cost experience while performing the contract.

Negotiation

When the Federal government contracts for audit, accounting or consulting services, it usually does so under the negotiation method of contracting. Procurement by negotiation is usually initiated by a request for proposal (RFP), which sets out the government's requirements and criteria for evaluating the offers. The negotiation method is usually used when the product or service is considered to be of a unique or one-time nature. The required results are specified in the RFP, and prospective contractors are requested to describe the techniques they will use to accomplish them.

A contractor's response to the RFP may be extensive and may include both technical and cost information. Unlike formal advertising, procurement by negotiation does not require an automatic award to the lowest bidder. Generally, the government considers additional criteria, such as the technical approach to be used or the qualification of the firm and its staff.

Government procurement regulations permit a wide range of negotiated contract types under two general categories: fixed-

price and cost reimbursement. The amount of a negotiated, firm, fixed-price contract is arrived at following the government's review of the contractor's technical and cost proposal and subsequent negotiations. The contract price usually cannot be adjusted subsequently unless there are changes in the scope of the contract or the government terminates the contract before it is completed. The most commonly used cost-reimbursement contract is the cost-plus-fixed-fee contract (CPFF), which provides for the reimbursement of allowable costs plus a fee. Once negotiated, the fee usually does not vary with the actual costs incurred unless the government changes the scope of the work to be performed.

A Federal procurement manual specifies the following with respect to the appropriateness of the two contracting methods.

"Given the contractual obligations assumed, the ability and willingness of the parties to negotiate a fixed-price arrangement at a realistic level depends largely upon the performance uncertainties involved. Some uncertainty is present in any situation where you price in advance of performance, so this doesn't mean that uncertainty rules out the use of a fixed-price arrangement. However, use of such an arrangement does imply an ability to identify the specific areas of uncertainty with some reasonable measure of confidence. It also implies that these uncertainties are relatively limited in number, and that their occurrence during performance will not or should not jeopardize the contractor's ability to deliver the product or perform the service required by the contract.

"Assuming performance uncertainties of the nature and extent just discussed, negotiation of a fixed-price arrangement may be both possible and appropriate. Selection from among the several authorized types of fixed-price arrangements would then depend upon the degree to which the parties, after an evaluation of existing supporting information, are able to agree on both the likelihood of these uncertainties occurring during performance and their possible cost impact.

"In other situations, it is impossible to identify at the time of contract negotiations all the significant events or problems that could arise during contract performance and their potential cost and technical impact. Here, use of one of the cost-reimbursement arrangements may be necessary to protect the interests of both the government and the contractor."

Procedures Applied in Contracting for Audit Services

CPA services are usually acquired under the negotiation form of contracting. Even though state and municipal laws vary, these

levels of government often follow the Federal pattern of procurement in acquiring audit services. The principal steps in the procedures generally include

- Public advertisement of the procurement (in the Commerce Business Daily for the Federal government).
- Issuance of request for proposal (RFP) by the agency requesting the services. The RFP details required services and the format and content of the proposal and often specifies the evaluation procedures to be followed.
- The holding of a bidders' conference at which the agency may provide further explanation of the procurement and prospective auditors may ask questions.
- Submission by prospective auditors of their proposals to perform the requested work. Usually, the proposal is submitted in two parts, a cost proposal and a technical proposal.
- Evaluation of the cost and technical proposals, leading to the selection of the winning proposal. In most cases the technical and cost proposals are evaluated by separate teams or parties. Usually, the winning proposal is the one that represents the lowest fee within the range of those proposals considered technically acceptable (not necessarily the most technically qualified).

At the Federal level, the best and final offer procedure is often used after initial cost and technical evaluations have been completed and before the final contract is awarded to encourage further price reduction. Those auditors considered technically acceptable are given the opportunity to reduce their original fee proposal before the final award is made. The appropriateness of applying this procedure to the procurement of auditing services has been questioned on many occasions, but since practitioners yield to the process, the practice persists.

Although the majority of contracts with CPAs for audit services are entered into on a fixed-price basis (frequently because this is the only form of contracting considered acceptable by the contracting officer), there have been variations of this method that have resulted in contracts providing for a fixed-hourly-rate multiplied by the number of hours (level of effort) required to perform the work. In these circumstances, the level of effort is usually negotiated after the auditor has had an opportunity to review the auditee's

records to estimate the extent of the work involved. The Environmental Protection Agency and several other agencies, for example, in requesting audits of a large number of grantees or the audit of a number of installations in different locations, have entered into the fixed-hourly-rate type of contracts. If the scope and extent of work is in doubt, this type of contract provides an appropriate level of protection for both parties--a fixed-hourly-rate for the government and a negotiated level of effort for the auditor.

These procedures emphasize the importance of the end products--the fee--as well as the two primary factors in the fee estimate equation, hourly rate and expected level of effort. Everyone would agree that a reasonable hourly rate multiplied by a reasonable level of effort yields a reasonable fee. If fees are estimated at too low a level, the practitioner must (1) accept a loss, (2) realize a less-than-expected hourly rate, or (3) reduce the hours expended. The third, and admittedly the sometimes tempting alternative can have a serious effect on the quality of the engagement. To ensure that quality of effort does not suffer as a result of underestimation of fees, it has been suggested that all fixed-price quotations should be accompanied by a proposed minimum level (hours) of effort.

Record Inspection Limitations

As previously suggested, there is a tendency on the part of Federal government contracting officers to insist, whenever possible, on fixed-price contracts. It is suspected that contracting officers prefer a fixed-price contract because it requires little if any monitoring or because they are unaware of the frequent variables involved in performing audit services.

Auditors have cited a number of factors that appear to make fixed-price contracting inappropriate. They include

- Refusal to permit the prospective auditor to review the auditee's financial records.
- The impracticality of reviewing auditee's records because of their distant or inaccessible location.
- Inability to review all of the auditee's records when a number of separate audits are to be performed in different locations, which makes inspection costs prohibitive.

To the prospective auditor, the inability to inspect records and discuss procedures with auditee officials often represents a

major impediment in determining the estimated audit cost and, thus, a proposed fixed price. This raises a number of questions such as, what procedures should be followed when a fixed-price contract is desired but records cannot be inspected? Is a fixed-price contract appropriate when records cannot be inspected and personnel cannot be interviewed?

Extent of Competition

Questions have been raised about the extent of competition that is necessary to provide assurances of a competitive procurement. It is indeed infrequent for the services of other professionals, such as lawyers, architects, or engineers, to be advertised in the Commerce Business Daily. Is there a significant difference between these professionals and CPAs?

It is not uncommon for agencies to mail hundreds of copies of RFPs in response to public notifications for CPA services appearing in the Commerce Business Daily. Cost factors alone might cause one to question whether it is necessary to engage in such widespread public disclosure of procurement opportunities. One might also question to what extent CPAs are induced to prepare costly proposals when chances of winning a contract are slim. Questions are also raised about the need to engage in widespread notification and to execute lengthy and complex procurement procedures for contracts that involve small audit fees.

In response to congressional concerns, a commission was formed in 1969 to study and recommend to Congress appropriate changes in Federal procurement regulations that would enhance procurement procedures in the executive branch of government. The commission reviewed and made recommendations concerning the acquisition of professional services. One of their recommendations related to reducing the necessity for widespread advertisement of proposal opportunities.

Are Any Alternative Procedures Utilized?

The Federal procurement regulations that govern the procurement of goods and services by civilian agencies of the Federal government include special provisions for the procurement of professional architect-engineering services (AE). Under these regulations, the technical qualifications of applicants, which are submitted annually, are reviewed by an evaluation board formed in each agency at the time of each procurement. No cost proposals are submitted. The evaluation board considers the qualifications of applicants and recommends to the agency's contracting officer that negotiation of a contract be attempted with the firm selected by the board as most technically qualified. (Note the difference in emphasis between among those

proposals considered technically acceptable in the previous discussion and the most technically qualified in the AE provisions.) If a contract can be negotiated, the procurement process is ended; if not, negotiations are commenced with the firm judged to be the next most qualified. (This technique is more thoroughly discussed in Section V.)

Many characteristics of the work of architects-engineers are inherent in audit work performed by CPAs. Therefore, a set of procedures similar to those used in procuring AE services may be appropriate for acquiring audit services.

Procedures similar to those used for procuring architect-engineer services at the Federal level are applied in several states for acquiring audit services. One state requires that cost proposals be withheld until a group of technically qualified finalists has been selected. In another state, CPAs are encouraged to submit statements of qualification to the state auditor. When services are subsequently required, the state auditor submits a list of not more than five CPAs to a state audit committee, which selects the CPA it considers to be most qualified to perform the engagement. The contracting officer is then instructed to attempt to negotiate a contract price with that CPA. In another state, the state auditor establishes the hourly rate for work to be performed; contracts are offered to CPAs on the basis of the state auditor's subjective evaluation of the quality of work previously performed by the CPA.

All of these methods would appear to be designed to deemphasize price, a criteria that is heavily emphasized, either intentionally or by default, in Federal procurements.

ISSUES EXPLORED AT COLLOQUIUM

The groups assigned to discuss current contracting procedures and, more particularly, the appropriateness of currently used contracting methods and compensation procedures, considered the following issues:

- Whether current RFP procedures are adequate.
- The merits of fixed-price and cost-reimbursement-type contracts and the circumstances in which either is appropriate.
- Whether the size of the contract and the type of audit work should be important factors in determining the form of contract or type of contract reimbursement.

- Whether the preproposal availability of auditee records should have a bearing on the type of contract reimbursement selected.
- Measures for ensuring that technical quality is not entirely subjugated to cost.
- The optimum time period for which auditors should be engaged; that is, does the government lose by engaging auditors for just one audit examination.
- Whether the contracting process should be different in circumstances in which contracts are set aside for small and minority firms.
- Whether any special procedures to assure appropriate understanding of work to be performed should be implemented when the recipient of Federal funds rather than the grantor agency selects and engages the auditor.

SUMMARY OF DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

Procurement Procedures

Summary of Discussions

The group discussed thoroughly the contracting procedures relating to the development of requests for proposal for audit services. The group recognized there was often little consistency in the form or content of such requests prior to the publication of the Guidelines for Preparation of Requests for Audit Proposals, prepared by the Western Intergovernmental Audit Forum (WIAF). (See Appendix B.) While the attendees suggested some further expansion of that guide, there was agreement that the guide has made a major contribution to the standardization of this aspect of the procurement process. The group also agreed that further standardization was needed to ensure that, among other factors, proposers were assured of a reasonable understanding of the requestors' needs and that the requestor was assured of a reasonable basis for evaluating the auditor's qualifications.

It was generally agreed that often the requested scope of the work and factors such as the condition, location, and access to auditee's records and personnel were not adequately described or made available to the prospective auditors. This discussion led

to further exploration of the issue of whether auditors should be permitted to review the condition of the prospective auditee's records prior to submitting a proposal. There was widespread consensus on two points in this area, namely (1) access to records and personnel prior to submitting a fixed-price proposal is highly desirable, if not essential, and (2) the large number of proposers for some engagements or the location of records often makes inspection impracticable. However, it was generally agreed that a number of very practical techniques do exist to provide access to records. They include, but are not limited to, examining sample records and permitting a limited number of qualified finalists to examine actual records.

A significant amount of time was devoted to a discussion of whether the grantor of funds or the auditee (grantee) should engage the auditor. It was agreed that engagement by the auditee was preferable in most circumstances, although it was acknowledged that failure to recognize the reporting relationship between the grantor and auditor had been the source of serious complaints in evaluations of auditor performance. It was suggested that if a standardized format of RFPs were developed, it would be appropriate to consider including a clarification of reporting requirements. It was also concluded that irrespective of who procured the services, the procedures used should be the same.

On the issue of reporting responsibilities, a representative of the GAO noted that the soon-to-be-released revision of the GAO "yellow book" would expand and clarify the auditor's reporting relationship to grantors.

A question was raised as to the appropriate time to issue an RFP and to conclude a procurement. It was agreed that the procedure frequently followed of engaging auditors after the expiration of the period to be audited was undesirable. Every effort should be made to initiate and conclude the procurement of audit services before the commencement of the period to be audited. Among many other factors, timely selection of the auditor improves audit efficiency, reduces cost, and minimizes disruption of client staff and procedures.

On the specific issue of the form and content of the request for proposal, the group used as a basis for their discussions the WIAF guide. Several specific recommendations were made regarding those items included in the section entitled "Information to be Requested From the Proposer." Under "Assistance Available From Buyer", there should be a clear identification and commitment of the individuals who will provide the auditor with explanations, information, and the source of data supporting the accounting records. Further, it was suggested that the negative tone

implied by phrases such as "state whether representation letters....will be issued" should be modified to aid in the identification of those parties who will supply representatives. Under AICPA SAS No. 19, auditors are required to obtain appropriate client representation letters as part of their examination. The implication in the guide that this is a discretionary procedure may result in a troublesome audit environment.

Under "Description of Entity and Records to be Audited," it was suggested that whenever the fixed-price proposal method is used and the grantee's records are not available for inspection, the buyer should give the auditor assurance of the level of completeness of the records. The assured level of completeness of the records can be relied upon by the auditor in the event of subsequent disputes.

In the area of "Response Expected from CPA Firm," it was suggested that there was a need to add a section requiring a description of the auditor's approach to the examination. It was recognized that this discussion may overlap the discussions by colloquium members on qualifications of auditors; however, the group felt strongly that describing in some detail the auditor's approach (work plan) was highly desirable. It was also suggested that consideration should be given to requiring that the audit effort, expressed in man hours, of each significant segment of the work would be useful in evaluating the auditor's approach to and understanding of the work. It was also suggested that the time commitment by staff level be provided. (These comments should be read in conjunction with other observations relating to the WIAF guide appearing in Section V.)

Conclusion and Recommendation

Conclusion

The WIAF publication, Guidelines for Preparation of Requests for Audit Proposals, represents a very substantial and noteworthy contribution to the development of comprehensive and effective guidance for the procurement of audit services from CPAs. Participants concluded that subject to its modification to include consideration of the key issues discussed at the colloquium, every effort should be made to encourage its adoption on a widespread basis.

Recommendation

It is recommended that a joint task force consisting of representatives of the AICPA and the GAO review and propose

modifications to the WIAF guide based on the factors and conclusions discussed at the colloquium.

The task force should subsequently pursue all appropriate means to ensure that the revised guide receives the endorsement of such organizations as the GAO, the AICPA, the Municipal Finance Officers Association (MFOA), the National Association of State Auditors, Comptrollers and Treasurers (NASACT), and the National Association of College and University Business Officers (NACUBO).

Types And Methods Of Contracting

Summary of Discussions

The participants discussed at length both the methods (advertised v.s. negotiated) and types (fixed-price or cost) of contracting procedures used to procure audit services and their appropriate use and limitations.

In addition, a number of different forms of contracting were reviewed, and a consensus was reached establishing the circumstances in which they should be used to procure audit services. The following forms of contracting were discussed.

Purchase Order

A purchase order should be used only in those circumstances in which the expected dollar value of the procurement is expected to be small and there is little doubt regarding the nature and scope of the work to be performed or the qualifications of the auditor to perform the engagement. Usually, all the conditions inherent in an advertised procurement would be present; that is, the standard product or service would be readily identified and defined by prospective offerors. (For example, provide 100 hours of audit services by a senior level accountant.)

Basic Ordering Agreement

A basic ordering agreement incorporates preagreements regarding qualifications of the auditor and the rates for the work to be performed.

This form of contracting appears appropriate only when one or more of the following conditions exist:

- Specific nature or scope of the total work to be performed cannot be predicted.

- Rapid response is required.
- Work is to be performed at numerous locations.
- A maximum and minimum effort during the contract period (usually one year) can be reasonably predicted.
- As need develops, tasks to be performed can be well defined.
- Nature of the work is expected to be within the normal scope of activities of the auditor.

Single Task Contract

This form should only be used when it is expected that the work to be performed is either of a unique or one-time nature.

Multi-Year Contract

This form of contracting should be used when the subject of the contract is a recurring annual examination of financial activities of an organization or a segment thereof. While the limitations of governments to obligate themselves for more than one year is recognized, contracts with preagreed option periods of from three to five years were strongly recommended by the group from a cost/benefit viewpoint.

It was recognized that most contracts for audit services will be procured on a negotiated basis because an audit would rarely meet the advertised criteria described in the background discussions.

The group recognized that most significant audit engagements (say in excess of \$10,000) were procured under the full request for proposal and negotiation procedures.

Initially, it appeared logical to the group that audit engagements of a smaller amount (less than \$10,000) should be exempted from such rigorous procedures. This reaction was understandable considering the cost of preparing a proposal for an audit engagement. It was subsequently recognized, however, that the temptation to relax the procedures must be weighed against evidence that the vast majority of engagements in which Federal representatives have alleged substandard auditor performance involve fees of less than \$10,000 and, in many cases, significantly less than \$10,000.

Based on this evidence, the group agreed that these circumstances demand development of alternative procedures rather than a relaxation of standards. It was suggested that the basic ordering agreement concept be used when an organization seeks contracts for a significant number of small engagements. In this way, firms would submit an annual statement of their qualifications to perform a variety of engagements, the cost of which would be subsequently negotiated. This procedure would significantly reduce the separate proposal burden.

Pricing Matters

The group agreed that in contracting for audits of government programs the objective of both the government contractor and the auditor is to produce quality work at a fair price. To achieve that objective there must be

- Appropriate criteria, which are not based solely on price, for selecting an appropriate basis of compensation.
- Qualified personnel to evaluate the criteria.

The group's discussion focused on the criteria for selecting either a fixed-price contract or a cost reimbursement contract.

Fixed-Price Contract

Representatives of the accounting profession agreed that fixed-price contracts are not necessarily inappropriate and that most CPAs do not automatically oppose them. However, the accountants in the group noted that the fixed-price contract is often equated with an intent to evaluate proposals solely on the basis of the lowest bid. The CPAs expressed concern about recurring instances in which low bidders who had previously performed poor quality work were rehired solely because they were once again the lowest bidder. It was suggested that when a government contracting officer thinks an unreasonably low bid has been made, the officer should question the bid because it does not meet the objective of a fair price.

Criteria for Selecting a Fixed-Price Contract

The group developed criteria that should be met if a fixed-price contract is used. The group did not rank the criteria or their related inherent factors in order of importance because they should be evaluated on an overall basis in determining the type of contract to use. However, it was agreed that availability of client records is a very important factor. The criteria are as follows:

- The scope of the work requested to be performed is clearly defined.
- There is a mutual understanding of the expectations of the CPA and the government contractor.
- The engagement is relatively free of uncertainties.

Clearly Defined Scope of Work

- There should be a clear definition of the auditing standards and procedures to be used, such as the GAO auditing standards and the audit guides of individual agencies.
- If the engagement is to include testing and reporting on compliance with laws and regulations, those laws and regulations should be clearly identified.
- There should be a clear indication of the working paper documentation that the CPA will be expected to prepare.
- There should be a clear specification of the nature, extent, and availability of assistance that the auditor can expect to receive from personnel of the entity being audited.
- The WIAF Guidelines for Preparation of Requests for Audit Proposals include the following additional factors related to a clear definition of the scope of the audit:
 - a. There should be a clear description of the entity to be audited.
 - b. Reporting requirements should be clearly defined.
 - c. Time requirements of the engagement should be clearly specified.

Mutual Understanding of Expectations

- An abnormally low bid may be an indication that the bidder does not adequately understand the scope of the engagement.
- Written proposals should be accompanied by oral presentations or other communications in order to minimize the risk of misunderstanding.

- The risk of misunderstanding is greater under the advertisement method of procurement because there is no opportunity for the parties to discuss the scope of work.

Engagement Uncertainties

- The accountants emphasized that, in this context, "uncertainties" do not refer to uncertainty about the possible existence of errors, irregularities or fraud, but to uncertainties about the conditions (records maintenance, for instance) at the audited entity.
- Conditions that foster uncertainties and thus affect the appropriateness of the fixed-price contract include the following:
 - a. The nature of an engagement may increase the number of uncertainties. For example, an engagement concerning economy and efficiency or program results may involve more uncertainty than a financial and compliance audit.
 - b. The term of the contract, that is, a one-year versus a multi-year contract may affect the degree of uncertainties. Some members of the group said that CPAs are more apt to consider a fixed-price contract appropriate when proposing on a multi-year contract because they can better plan staffing and training requirements. Other group members thought that a fixed-price contract is not appropriate for a long term contract because of the difficulty of factoring in an allowance for inflation. The group recommended that the use of multi-year contracts or a one-year contract with an option for two or more additional years should be encouraged. However, the group recognized that the possible legal implications should be considered before this recommendation is implemented.
 - c. Whether or not the entity has ever been audited will affect the uncertainties.
 - d. The size of the entity, the number and location of offices and the location of its accounting records will affect the degree of uncertainty.
 - e. Unavailability of the accounting records for inspection increases the uncertainties and is an

important factor in considering the appropriateness of a fixed-price contract. If the records are not available for inspection, the uncertainty might be satisfactorily overcome if the procurer of the CPA's services can assure the CPA of the condition of the records, or can describe the condition in sufficient detail to allow the CPA to make a reasonable assessment of their condition.

- f. Knowledge that irregularities have occurred in the past may increase the uncertainty about the engagement.
 - g. A high rate of turnover among the audited entity's accounting personnel increases the possibility that personnel who prepared and understand the accounting records will not be available, thereby increasing uncertainty.
- One member of the group suggested that a fixed-price contract could include a list of the assumptions agreed upon by each party in areas of unresolvable uncertainty (for example, the records are assumed to be in auditable condition, or government employees will provide forty hours of audit assistance), and the contract could provide for price or fee modification if the assumptions were later found to be invalid.

Two-Phase Contract

The group recommended the use of a two-phase contract in certain situations. This procedure involves a cost-reimbursement type contract for a survey of the entity to resolve the uncertainties that otherwise would prohibit the use of a fixed-fee contract. On the basis of information gained from the survey, CPA firms can then be expected to propose a fixed-fee for the actual engagement. The two-phase approach would be most appropriate for the initial audit of an entity or the initial audit of a new program in which there are uncertainties regarding the laws and regulations to be tested for compliance. The group identified the following issues that would have to be resolved before this recommendation can be implemented:

- Is this type of contracting most appropriate for a large or a medium-sized engagement?
- Should only one CPA firm perform the survey, or should each firm that intends to bid on the fixed-price contract do its own survey?

- a. Is it practical to allow several firms to do the survey? Would the entity object?
- b. If only one firm does the survey, would other firms be willing to be held to a bid based on the information provided by another firm?
- c. If only one firm does the survey, should it be allowed to bid on the engagement? (It might have a competitive advantage.)

Additional Comments On the Fixed-Price Contract

The group observed that often when a fixed-price contract is contemplated, the contractor assumes that no further involvement on his part is needed once the contract is signed. Contracting officers should recognize that although a fixed-price contract requires less monitoring than a cost-reimbursement contract, a fixed-price contract should be monitored since, as the group agreed, the fixed-price contract should allow for modification in response to unforeseen occurrences.

A suggestion was made that fixed-price contracts should include a provision that would provide for additional compensation at a specified hourly rate for the additional hours required to deal with any unexpected condition discovered during the engagement. However, no consensus was reached on this point. Some participants contended that the rate for unexpected work (that is, change of scope) need not be stipulated in the contract, because it can be negotiated if the need arises.

The suggestion was made that fixed-price contracts should include a clause which stipulates performance of a minimum number of hours of work, but the contract should be flexible regarding the ratio of personnel level as long as the minimum hours are achieved within the total contract price.

Cost-Reimbursement Contract

The group agreed that a cost-reimbursement-type contract may be more expensive to administer. However, ultimately it may be cost beneficial to the government because it is less subject to the padding that is sometimes incorporated into fixed-price bids to give consideration to uncertainties.

The generally higher administrative costs associated with cost-reimbursement contracts may not be justified for smaller engagements. The use of a fixed-price contract may be the only practical contract for such engagements, provided the potential for uncertainties is considered in the terms of the contract.

Performance Quality Considerations

The group identified the following circumstances in which a fixed-price contract might be detrimental to the quality of performance:

- The engagement is highly sensitive, for example, in the audit of an entity where fraud or an irregularity may have existed or is known to exist.
- Auditor judgement is particularly important, for example, in an engagement concerning economy and efficiency or program results.

Other Matters

The group noted that OMB Circular A-102, Attachment P, requires an audit every two years, and that the Office of Revenue Sharing requires an audit every three years. The group recommends that those contracting for audits should recognize that typically there is not a proportional cost savings for multi-year audits. The cost of an audit performed every three years generally will be significantly greater than one-third the cost of three annual audits.

On the issue of whether contracting procedures should be any different when contracts are set aside for small or minority firms, the group concluded that there was no reason to consider any different procedure since the intent of the procurement--to engage a qualified firm at a reasonable price--remains the same. The procedures discussed by the group appear to be necessary and appropriate irrespective of the size or stature of the firms involved.

The group also discussed briefly two additional topics: the appropriateness of establishing review panels, such as those called for under current architect-engineer regulations and the appropriateness of considering the quality of an auditor's past performance in the evaluation of a current proposal.

The group was of the opinion that while architect-engineer procedures may be appropriate for large units of government (for example, Federal or state governments), they are not practical for smaller units of government or for other units (for example, municipalities or colleges).

The group generally agreed that consideration of past performance should be used as a basis for evaluation, but some group members argued whether such a standard could legally be applied.

Legal representatives in attendance were of the opinion that if properly administered, consideration of past performance could be used as a basis for evaluation. After further discussion, it was suggested that consideration be given to developing a federal registry of experience with CPA firms that would be available to interested parties.

Conclusion and Recommendation

Conclusion

There was a concensus among members that there presently exists an adequate number of types and methods of contracting to cover most circumstances involving the procurement of services from CPAs. There was, however, significant concern that information about the types and methods of contracting available and their appropriate uses was often not known to persons below the Federal agency level. This weakness in the system is further compounded by a lack of understanding of the scope and limitations of services provided by CPAs. As a result, it is suspected that on many occasions the quality of an engagement suffers because of inherent conflicts between the nature of services required and the contract period or price provisions, or because of the complexity of the request and proposal process.

Recommendation

Developing an atmosphere in which the various types of available contracting procedures will be matched with the appropriate audit services calls for an understanding of the three factors considered essential to the development of an effective procurement of CPA services: (1) knowledge of the nature of services to be provided and results expected, (2) knowledge of the procurement regulations and procedures used by all levels of government and other grantees, and (3) an appreciation of what constitutes professional performance by a CPA. It is recommended that the GAO assume primary responsibility for the preparation of a guide to be used in procuring the auditing services of CPAs describing the methods and types of contracting procedures appropriate and the circumstances in which each are appropriately used.

It is recommended that members of the AICPA Federal Acquisition Subcommittee assist in this project. The final brochure should be widely distributed among parties likely to procure CPA services.

V

QUALIFICATIONS AND TECHNICAL EVALUATIONS OF AUDITORS

THE PROBLEMS AND ALLEGED CAUSES

The Perceived Problems

As early as April 1973, the GAO reported a need to provide additional training for CPAs auditing Federally assisted programs and recommended that the various Federal grant-making agencies sponsor and participate in training programs to meet that need. This recommendation resulted from a GAO review of twenty-seven CPA audits of local antipoverty organizations that received grants from the Office of Economic Opportunity (now called the Community Services Administration). The GAO reported that seventeen grantees were found to be operating with significant deficiencies in their accounting systems or internal controls that had not been identified in the audit reports of CPAs engaged to perform financial and compliance audits of their activities.

As a result of the GAO report, the California Certified Public Accountants Foundation for Education and Research prepared a training program for its members to acquaint them with the requirements for auditing Federal grantees. Additionally, the AICPA prepared a report entitled Suggested Guidelines for the Structure and Content of Audit Guides Prepared by Federal Agencies for Use by CPAs. The report was designed to help members of the Institute interpret government audit requirements and to provide Federal agencies with guidance in standardizing the preparation of audit guides outlining the requirements for audits of Federally assisted programs.

In June 1976, the GAO issued another report on the quality of CPA audits of public housing authorities. That report concluded that CPAs needed further training and guidance from the Department of Housing and Urban Development (HUD) to improve their reviews of housing agencies' compliance with program regulations. The GAO evaluated fifteen audits performed by eleven different firms and concluded that none of the firms adequately reviewed all compliance areas required by the HUD audit guide.

In a report issued in July, 1979, the GAO reported that it had identified significant deficiencies during a review of the quality of twelve audits performed by CPAs. In eight of the twelve cases, the GAO found seven cases of failure to gather sufficient evidence, four cases of failure to adequately test internal controls, five cases of failure to adequately test

compliance areas, and one case of failure to report a material defalcation. Other Federal agencies have also noted that the quality of some audits performed by CPAs needs to be improved. Some have referred suspected cases of substandard audit performance to the AICPA Professional Ethics Division.

The Perceived Causes

Some believe there are two major factors that contribute significantly to the quality of the performance of governmental financial and compliance audits. The first is the contracting procedures used by governments to select CPAs to perform engagements. The second is overemphasis of the cost element in selecting the auditor irrespective of the request and proposal procedures followed. Evidence indicates that stated technical evaluation factors accompanying the contracting process are often ignored in deference to the selection of a low bid or offered price. A complicating factor is that contracting personnel often have little technical experience and expertise in accounting and auditing matters; their ability to determine the technical qualifications of proposers is extremely limited. Thus, by default, price becomes the primary basis of awarding contracts. Further, the government's practice of seeking annual or short-interval reproposals, which often leads to a new auditor being selected annually to audit the same program or grantee, contributes to the problem. Under these circumstances, CPAs often do not feel that a one-time-only engagement, awarded on the basis of the lowest bid, justifies an investment in special education for its assigned staff. Yet, one-time-only engagements awarded to the lowest bidder, are considered to be an integral part of the government's competitive approach to contracting.

Equally troublesome is the perception among many government contract officers that "an audit is an audit" and that, based on the profession's certification procedures "one CPA is as qualified as another." They believe that the profession encourages the attitude that all CPAs are equally qualified to perform any audit engagement. Those professionals familiar with the government auditing environment know that government audit engagements can be quite different from commercial audit engagements, in terms of the nature of the work and the expectations of the client. Effective performance on financial and compliance audits usually requires a background in government accounting systems, government audit standards, and often requires specialized experience with specific contract, grant, or program activities.

In an effort to respond to these specialized needs, several state CPA societies, as well as the AICPA, have endorsed, developed, and conducted numerous training courses on government auditing requirements. To date, however, participation in such training has been voluntary.

Areas to be Examined

In anticipation of the colloquium, a discussion paper was prepared in advance of the meeting which summarized the issues that many representatives of the profession and the government feel warrant further investigation and analysis. (The substance of that discussion paper is included in the section entitled "Background".) In examining the qualifications and technical evaluations of auditors, colloquium participants focused on the following areas:

- Standards of Technical Qualifications. A discussion of those elements or areas of qualifications (experience, education, and so on) that should be included in the submission of a proposal to perform a government audit engagement.
- Evaluation of Auditor Qualifications. A discussion of the procedures necessary to provide reasonable assurance that qualifications are uniformly evaluated.
- Continuing Professional Education. A review of currently offered continuing professional education programs and an assessment of their strengths and weaknesses.

Throughout the many discussions, there was no disagreement regarding the importance of the issues considered or the factors contributing to these issues. As summarized later, many beneficial suggestions and methods of implementation were proposed by the participants.

STANDARDS OF TECHNICAL QUALIFICATIONS

Background

While there are many issues related to the desirability of requiring CPAs auditing government programs to meet minimum standards of qualification, most can be grouped as follows:

- Determining whether recognized criteria presently exist for evaluating the qualification of CPAs.
- If suitable standards do not exist, determining whether it is it practical to develop standards for evaluating the qualifications of CPAs.

- Identifying the criteria that should be included in the standards.
- Deciding whether the same standards of qualifications should be applied to all proposers.
- Determining whether professional qualification standards can be reasonably and consistently evaluated.

Current Environment

Universal criteria for evaluating the qualifications of CPAs to audit Federal programs have not been applied in practice. Furthermore, although several Federal and state agencies have developed criteria for evaluating CPAs' qualifications to perform audits of their programs, there is little consistency among the factors or in the method of their application.

Some qualification standards are very broad. For example, several Federal agencies require that auditors of their programs be either certified public accountants or licensed public accountants of a state or other political subdivision of the United States and meet any legal requirements for registration in the state in which the audit is to be conducted.

Some qualifications are, in contrast, very specific. They include such factors as

- Prior experience of the audit staff in auditing programs financed by Federal, state, county, or local government entities.
- Size and structure of the offering firm.
- Qualifications of the staff assigned to the engagement (determined from resumes required to be submitted, considering such items as education, position in the firm, and years and type of experience).
- The experience of the audit team by staff level.
- A statement of the offerer's understanding of the work to be performed, including an audit plan and time estimates for each major audit activity.

Some agencies have also added such factors as an evaluation of the quality of past audit engagements performed by the CPA and the willingness of the firm to assign specific personnel with recognized prior experience.

As previously noted, the Federal procurement regulations that govern the procurement activities of all civilian agencies include special provisions for the procurement of architect-engineering services. These special provisions, implemented in recognition of the need to distinguish between the acquisition of material or hardware and this specialized type of professional services include the following four relatively straightforward evaluation criteria:

- Specialized experience and technical competence of the firm (including a joint venture or association) with the type of service required.
- Capacity of the firm to perform the work (including any specialized services) within the time limitations.
- Past record of performance on contracts with government agencies and private industry, including such factors as control of costs, quality of work, and ability to meet schedules.
- Familiarity with the geographic area in which the project is located.

These regulations also require the establishment within each agency of a specialized evaluation board comprised of experienced professionals responsible for reviewing and evaluating AE proposals. Such regulations imply a correlation between the quality of the evaluation staff or board and the need for specificity in the establishment of evaluation criteria.

Although no universal criteria for evaluating the qualifications of CPAs to perform audits of Federal programs have been adopted, there is a movement within the government community (National Intergovernmental Audit Forum) to encourage the use of uniform guidelines by government entities in requesting and evaluating audit proposals.

In October 1980 the Western Intergovernmental Audit Forum published a discussion draft entitled Guidelines for Preparation of Requests for Audit Proposals. The guidelines were prepared in an effort to establish a reasonable degree of consistency in information contained in requests for proposals, thus hopefully bringing about (1) greater emphasis on the specified qualification criteria and (2) greater uniformity in qualification evaluations. The guidelines are intended to assist in the procurement of services to perform financial and compliance audits. The guidelines further suggest that predetermined and disclosed weighting factors be applied to the specified qualification criteria, such as

- The firm's prior auditing experience-- up to 25 percent
- The education and experience of the audit team-- up to 25 percent
- Proposed cost to perform the audit-- up to 25 percent
- Understanding of the audit work to be performed-- up to 20 percent
- Size and structure of the audit firm-- up to 5 percent

(See additional comments in section IV on WIAF Guide.)

While no uniform criteria are currently required, the specification of criteria, often with weighting factors, is becoming a common practice in Federal, state, and municipal procurements. However, several questions are usually raised in regard to the criteria.

- Can criteria be agreed upon that are sufficiently specific and relevant to provide reasonable assurance of the selection of auditors who can be expected to provide quality performance on the specific engagement in question?
- Can standards be consistently interpreted and evaluated in a fashion that provides reasonable assurance that only technically qualified auditors are selected?
- Can technical qualifications and cost be considered in a fashion that precludes a technically deficient offerer from securing a contract on the basis of a low-fee estimate?

Since several Federal and state agencies have developed criteria for evaluating the qualifications of CPAs to perform audits of their programs, it appears that the recognition of a standard set of criteria might be achieved. Once the standards are adopted and proven equitable, the factors would probably not be substantially challenged by either government representatives or by practitioners.

The task facing those who seek the development of uniform criteria is to obtain agreement on (1) the factors to be included

in the criteria, (2) the appropriate relative weight that should be given to each factor, and (3) to whom the criteria should be applied. The third consideration is raised in response to the government's minority and small business set-aside programs.

In the attempt to determine what factors should be considered in establishing uniform qualification standards, the question arises, what makes a good government auditor? The logical answer would seem to include the broad areas of experience, education, and understanding of the work to be performed. Thus these three factors would appear to form the basis of any technical evaluation process.

Experience Criteria

While the experience of the auditing firm in general should be considered, the experience of key supervisory and other personnel to be assigned to the engagement may be of even greater significance.

Some factors which may be considered include the following:

- Whether the firm is local, regional, national, or international.
- The location of the office from which the work is to be done and the number of partners, managers, supervisors, seniors, and other professional staff employed at that office.
- Whether the office performing the audit has had experience auditing similar organizations.
- The range of services offered by the performing office, such as an audit, accounting, tax service, or management services.
- The technical expertise available to the firm in related fields--computer science, systems analysis, and so on.

While each of these factors is an important aspect of experience, many would contend that emphasis should be placed on government experience of the staff to be assigned. Even though other offices of a firm or other personnel within an office, may have substantial experience in the area of audit to be performed, there can be no assurance that such experience can be effectively transferred. This would suggest that the experience of individuals assigned, the offices involved, and the firm in general, might receive different weighting in the process.

Continuing Professional Education Criteria

In addition to on-the-job experience, continuing professional education undoubtedly plays a significant role in technical qualifications. The benefits derived from continuing professional education have been recognized by the CPA profession since 1967, when Marvin L. Stone, then president of the AICPA stated, "I am convinced that most substandard work is the result of ignorance rather than willfulness. Therefore, I suggest that we attack the problem by attempting to dispose of ignorance through a program of compulsory continuing education (emphasis added)." While Mr. Stone was not referring to government audits at that time, the suggestion certainly seems applicable.

In order to evaluate the implications of substituting continuing professional education for on-the-job experience or of encouraging education as a supplement to experience, it is necessary to ensure there is a common understanding of the term continuing professional education.

Nearly everyone has some idea of what constitutes continuing professional education, but unfortunately, the definition is not the same for all. On the one hand are those who believe that continuing professional education requirements can only be met by completion of traditional, formal courses. These individuals would not consider professional development programs sponsored by the AICPA or state accounting societies, in-firm professional development courses, correspondence courses, and self-study methods as acceptable for meeting continuing professional education requirements.

On the other hand there are those who believe that everything that contributes to a CPA's overall development should be considered acceptable for meeting continuing professional education requirements. Those who share this view would accept not only all types of accounting study, from formal college-level courses to self-study programs but also any other type of study that would lead to the CPA's overall development.

Understanding of the Work

This is a specific evaluation factor or criterion that has been used frequently in government contracting for many years. Its purpose is to make the contractor describe the nature of the work in a way that permits the evaluator to assess the depth of the contractor's knowledge of the services to be performed.

In many cases, however, this factor is poorly or improperly applied. Contractors have been known to simply recite the agency's own description of the work that is included in the request for proposal.

When applied to the audit area, it would appear that the submission of an audit plan, outlining major audit activities with assigned time estimates, might be a factor that demonstrates an understanding of the work to be performed. As an alternative, some organizations have posed theoretical audit or compliance questions or problems to the auditor as a means of determining the auditor's understanding of the work or depth of knowledge in the area. Although in practice a description of the proposer's understanding of the work is often required, this criterion does not appear to be fully, or often effectively used.

Summary

Although uniform qualification standards for evaluating the qualifications of CPAs to audit Federal programs have not been adopted, their establishment appears feasible.

The question is, are they desirable? If so, what factors should be included? Care must be taken to ensure that any factors selected are sufficiently defined and specific enough to provide the assurance that a high level of performance will result if the standards are implemented.

It is also recognized that special circumstances exist in the case of minority or small business set-aside programs. While the criteria used to judge technical qualifications will not be changed in these programs, the means by which they are achieved may vary. In some cases these CPAs may be granted special assistance in achieving appropriate levels of experience. Such assistance may be provided by government representatives or through the development of a subcontract agreement with more experienced CPAs. It is not the purpose of this colloquium to explore the appropriate means of achieving minority or small-firm involvement but rather to provide useful guidance concerning those technical qualifications that should be sought in any procurement, irrespective of size or stature of the firm involved.

Issues Explored at Colloquium

Considerable time was devoted to clarifying and reconciling the participants' views on several issues relating to the technical qualifications of practitioners proposing to conduct an audit of a government program. The subjects completely examined included the following:

- What criteria are most important for determining auditor proficiency?

- Should the criteria be expected to vary by type of proposed engagements?
- What relative importance should be ascribed to the identified criteria?
- Should the criteria be associated with the audit firm, the specific office of the firm, or the individuals performing the audit?

Summary of Colloquium Discussions, Conclusions and Recommendations

Summary of Discussions

None of the participants objected to the suggestion that criteria were needed to permit the appropriate evaluation of proposers of audit services. Participants directly involved in the acquisition of audit services related some of their experiences, which included examples from Federal, state and local governments.

Additionally, one of the authors of the WIAF Guidelines for Preparation of Request for Audit Proposals provided a briefing on efforts to establish uniform criteria to evaluate auditors qualifications (see Appendix B). No objections were taken to the document as a whole, but participants did not endorse certain specifics. For example, some believe that the percentage weighting of evaluation factors places too much emphasis on cost. When the details of the weighting formula are analyzed, it appears that no single evaluation factor is weighted equal to, or in excess of, the cost factor. Also, the document does not clearly require the auditor to demonstrate, in writing, the audit approach (scope, testing, and so on) expected to be used. However, the group believed that the WIAF's effort could be adapted or modified to address the concerns of the colloquium attendees, and would form a sound basis for further proceedings to develop technical qualification guidelines.

Generally, there was agreement on the need to develop universal criteria for evaluating the technical qualifications of CPAs to audit Federally assisted programs. Further, the participants suggested that in the procurement of audit services, the process, at a minimum, should provide for a two-tiered approach: (1) a technical proposal should be submitted and evaluated separately from any cost submissions, and the primary emphasis should be placed on the level of effort and quality of personnel expected to be assigned to the engagement, and (2) the price proposal should be evaluated only for those firms found to be most technically qualified.

This procedure was seen as necessary if buyers were interested in obtaining quality audit performance. It was agreed that auditors must first demonstrate their technical qualifications to perform the engagement, including the demonstration of clear understanding of audit requirements. Second, it was agreed that only through proper evaluation of those technical qualifications can the risks inherent in making a selection on the basis of low fee be minimized. Once proposals are received, the procurers of the audit services could, through evaluation, eliminate from further consideration those proposers who are not deemed most technically qualified to perform the services.

In addition to the two-tiered evaluation approach, the group discussed the desirability of establishing two levels of qualifying technical criteria. The discussion group believed basic, threshold-type criteria should be met before an auditor is even considered qualified to submit a proposal. Further, a determination of whether a firm meets threshold criteria should be made expeditiously by the procuring agency. The threshold criteria relate to the privilege to audit and the auditor's eligibility. These threshold criteria can be further described as

- The privilege to audit. All proposers should be CPAs properly licensed and registered, and all must meet the criteria established by the Comptroller General.
- The auditor's eligibility. All proposers should be financially, organizationally, and professionally independent of the entity to be audited and have no other relationships that might be seen as a conflict of interest or might in any way impair the objectivity of their audit.

Only after the threshold criteria have been met should a firm be considered for a further evaluation. Next, the remainder of the technical proposal, containing other information about the proposer, should be evaluated and all marginal firms eliminated from further consideration. To be judged technically qualified, the auditor should meet following evaluation criteria:

- There should be a demonstration of an understanding of the work to be performed. This demonstration and understanding should be required in all proposals, with the degree of detail varying according to the size of the audit engagement. Agencies procuring audit services should solicit this understanding of the audit desired by having audit firms provide information such as:

- a. The manner in which the audit firm would complete a hypothetical case study set forth in the request for proposal by the government agency.
 - b. Require the auditors to outline and describe, in detail, the specific audit steps that will be performed to complete either, or both, a financial or compliance audit.
 - c. Require the submission of the specific number of professional hours to be devoted to each phase of the audit plan proposed by the auditor. The hours should be related to specific staff levels and, where possible, to individual staff members.
- There should be convincing evidence that the audit firm will make a significant commitment to the successful completion of the audit. Procurers of the audit services should require that the key audit professionals who are to work on the engagement be identified. The education and experience of all assigned staff should be described in the proposal. Extremely critical evidence would be programs for the continued professional development of all staff and for the types of audits proposed, including the specific courses completed and the time periods involved. The existence and the planned use of any specialist should be set forth. (There were concerns that specialists might be named in the proposals, but never used on the audit engagement.)
 - The resources of individual practice units (office) should be described in the proposal. A point was made that a national or regional firm in a given location may or may not have more competence than a local firm. Of greater significance would be the competence of personnel that the office would use to perform the audit.
 - Specific information should be solicited from the proposing audit firms concerning the existence of qualified technical staff and other resources, such as
 - a. The experience of the staff proposed for the engagement with similar organizations or with organizations identical to those identified in the request for proposal.
 - b. The technical resources of the particular office, the extent of the professional library, consultants on retainer to the office, and specialists who are assigned to the office and how their services are to be included in the proposed audit.

- c. The existence of a quality assurance program. Has the particular office been subjected to an AICPA peer review, or in the case of a governmental audit organization, the GAO or Inspectors General quality control review? What are the continuing quality control procedures and policies that the government may expect to be applied in the audit?
- Reference to past audit clients should be provided in the proposal and the firm should describe their impression of the relative satisfaction of these clients with respect to the timeliness of performance and the quality of work performed.

Cost should be a relative criterion since there is a correlation between the quality of the audit proposed and the cost a firm should charge. The support of professional staff, their continued professional development, the retention of consultants, and use of specialists to better serve government clients are all factors leading to better audits, but these factors contribute to a higher cost. Both the government and the AICPA should not hesitate to point out that those organizations which place maximum weight on price may, in all likelihood, get exactly what they paid for--a low bidder!

Conclusion and Recommendation

Conclusion

Recognized and acceptable evaluation standards do not exist for evaluating the qualifications of CPAs, but such standards are practical and are desired by both government users of audit services and the accounting profession generally.

Recommendation

The AICPA and the GAO should take the initiative in establishing technical evaluation criteria that are acceptable to the government and the AICPA and are deemed necessary to assure the performance of quality audits. The previous discussion sets forth specific factors to be considered in the development of such criteria. It is also recommended that, to the extent possible, the GAO and the AICPA build upon the initiatives of the Western Intergovernmental Audit Forum and modify that publication to make it consistent with the refinements and relative priorities which have emerged from this colloquium.

EVALUATION OF AUDITORS QUALIFICATIONS

Background

General

The principle issues involved in evaluating a CPA's qualifications are

- What technical qualifications, if any, should be possessed by the evaluator?
- In areas such as experience, education, and understanding of the work, what factors should be considered in the technical evaluation?

Under current Federal procurement practices, CPAs proposing to perform work for the government are usually required to submit separate technical qualification and cost proposals. The technical proposal is usually assigned to an agency representative or group to be evaluated and ranked against all other technical proposals submitted. The evaluators may or may not be denied access to cost information during the evaluation process. Technical evaluation teams are usually formed on an ad hoc basis for each procurement and are usually drawn from agency personnel. On completion of the technical evaluation, the evaluators submit the scores or rankings of the proposing CPAs to the contracting officer, who merges the technical and cost rankings to identify the winning proposal.

Theoretically, the combined score or ranking in both the technical and cost areas provides the basis for selection of the contractor to whom an award will be made. A wide spread belief is that the technical evaluation teams do not make material distinctions among CPAs, a factor which results in insignificantly different technical scores. Consequently, in the final analysis price becomes the primary criterion in many cases.

To minimize excessive reliance on the lowest bid, several variations of the Federal process are practiced by other government entities. In several states, the submission of bids or cost proposals has been prohibited or discouraged; in those instances, the government negotiates a contractual fee with a CPA selected from among those considered technically qualified based upon an evaluation of only the technical proposals submitted. In some other cases, the government limits the submission of cost proposals to only a select group of proposers who have been considered technically qualified based upon the submission of a technical proposal. In these cases the low bidder from among the most technically qualified is selected to perform the work.

In at least one state, CPAs annually submit statements of qualifications to the state auditor. The state auditor establishes the hourly rates to be paid for work performed (keyed to the degree of difficulty associated with the work) and offers work to CPAs on the basis of their acceptance of rates offered and the evaluation of the quality of their past work made by the state auditor. Prior experience criteria include report timeliness, clarity, other similar factors.

In another state, CPAs annually submit qualification statements to the state auditor. When audit work is required, the state auditor submits the names of up to five CPAs considered qualified to an audit committee, which ranks their technical qualifications and directs that a contract be negotiated with the CPA considered most qualified. If negotiations are unsuccessful, the audit committee attempts contract negotiations with the next most qualified CPA.

Although this outline of procedures is somewhat oversimplified, it identifies the varying levels of importance that can be ascribed to the evaluation of technical qualifications in the selection of a contractor (in this case an auditor). An equitable and fairly executed procurement procedure is extremely important to achieving quality performance by the auditor. Without quality procurements, it is doubtful that quality audit performance will result. This must be achieved, of course, in accordance with the responsibility of all contracting officers to achieve the lowest contract price from a technically qualified proposer. Contrary to popular belief, however, it is not the contracting officer's responsibility to select the contractor with the lowest price and the highest technical qualifications.

Two of the principle problems which appear to be inherent in many of the technical evaluations conducted today are

- Technical qualification evaluations appear to be frequently performed by persons without the necessary background to judge auditor qualifications appropriately.
- Technical qualification evaluations of a firm are often considered less important in selecting a contractor than the bid it proposes because of the difficulty usually experienced in reconciling a qualitative and subjective technical evaluation with an objective and quantifiable cost evaluation.

Of course, it is recognized that technically qualified CPAs have often submitted unusually low fee estimates for the purpose

of obtaining experience and thereby establishing their expertise in the market. While some may question the propriety of this practice, a free enterprise society permits, and sometimes encourages, it.

Technical Evaluator's Qualifications

In evaluating the qualifications of a proposer to perform professional services, the evaluator should possess technical knowledge in the area or profession from which services are being procured. Unfortunately, some accountants allege that this is frequently not the case. Others contend that familiarity with accounting, auditing, or financial management is not a sufficient qualification. They contend that if the evaluator does not sufficiently understand the complex rules and professional pronouncements under which a CPA practices, the evaluator is prone to make serious errors in judgement.

As previously noted, the special regulations governing the procurement of professional services from architects and engineers provide for the establishment of evaluation boards within each Federal agency, consisting of agency employees and private practitioners who "collectively have experience in architectural engineering, construction, and related procurement matters." The regulations further state, "Members shall be ... highly qualified professionals..." The role of the evaluation board seems similar to that of an audit committee in the selection of corporate independent accountants and the regulations of the evaluation board can be applied in acquiring governmental auditing services.

Factors Considered in Evaluating Experience, Education, and Understanding of the Work

Little information is available on the appropriate means of evaluating a proposer's relative qualifications. Consequently, this discussion is limited to perceptions about how the procedure is presently conducted.

Certainly, the specific type of information requested from the proposer in the areas of experience and education can greatly assist in the evaluation process. Requests to provide information specifically related to the type of entity to be audited such as previous audits of similar programs or continuing professional education in areas related to the specific type of entity being examined, appear to be most useful in the evaluation process.

Another related question is the quality of the experience and education cited by the proposer. Requiring the proposer to

provide references, including names of individuals and prior clients, would assist further in the evaluation of past performance. However, experience has demonstrated a significant reluctance on the part of the procurement officers of some government agencies to prejudice current contract awards on the basis of the quality of performance on prior contracts. This attitude is difficult to understand and is quite different from the attitude in the commercial sector, where prior performance is a significant factor in awarding future work.

It appears necessary to ascertain whether prior experience and education is possessed by the individuals to be assigned to the engagement or by others in the proposer's organization. Ratings assigned to these factors would presumably give higher value to assigned-personnel experience in contrast to available personnel, who may not actively participate directly in the audit.

In the case of continuing professional education, there are some special considerations. Did the courses provide some method to grade the student's level of proficiency or participation in the courses? The cost of maintaining and monitoring a grading system, such as a CPA examination, is obviously substantial. Whether the cost of maintaining such systems provides commensurate benefits is doubtful. If continuing professional education is considered an important factor, some means by which to confirm attendance at continuing professional education courses may be required. The existing reporting mechanism that has been developed to ensure compliance with various state mandated continuing professional education requirements could be sufficient for these purposes.

Evaluating the proposer's understanding of the work to be performed is probably the most important part of the evaluation process. Demonstrating the auditors understanding of the work would also provide further evidence to support claims of prior experience and education. It is in this phase of the process that the experience of the evaluator is most important. Factors to be considered in the evaluation would be

- Necessity for the performance of procedures that the CPA suggests are necessary to perform.
- Reasonableness of the time estimates associated with the described tasks.

Not only is technical knowledge required of the evaluators in these circumstances, but practical experience in executing audits of the type being considered would also be invaluable.

Some procurements permit a general description of the work to be performed. However, a more effective procedure would be to mandate a detailed work plan describing major efforts and estimating the time needed for their completion. In the case of audit assignments, the use of the term work plan in lieu of understanding would probably eliminate the submission of general statements.

It may be desirable to establish subfactors to apply in the rating process. The subfactors might include the following areas:

- Appropriateness and adequacy of proposed procedures.
- Necessity of procedures.
- Reasonableness of time estimates.
- Appropriateness of assigned staff levels.
- Timeliness of expected completion.

On the crucial issue of the reasonableness of estimated time requirements, it may be appropriate to require the evaluator to agree upon the achievability of the time estimates.

Discussions with technical evaluators and contract officers have revealed situations in which they knowingly awarded contracts for fees that, if divided by a reasonable hourly rate, resulted in hours of effort that were known to be insufficient for performing the engagement. These situations would seem to indicate flagrant abuse in the evaluation and contracting process. They also raise the question of whether the government should ever procure audit services on the basis of a fee estimate that is not accompanied by a commitment of expected hours of effort.

The value of oral interviews should not be underestimated. Through this process, the evaluator can determine whether the key staff members to be assigned to an engagement demonstrate the knowledge and expertise reflected in the written proposal.

Summary of Background

An informed and equitable evaluation of a proposer's technical qualifications is a vital part of the procurement process; it is essential in ensuring, with reasonable confidence, that the contract will result in quality performance. If more effort is

placed on the evaluation function and its proper execution, post reviews of performance may become less frequent.

However, if improvement is to be achieved, the following questions should be answered:

- What steps should be taken to improve the current evaluation process? and by whom?
- What additional guidance to conducting meaningful technical evaluations should be provided to evaluators?
- What assurance can be given that technical evaluations will not be unduly overshadowed by cost considerations?

Issues Explored at the Colloquium

Topics discussed included the relative merits of present government procedures used to evaluate a practitioner's technical qualifications to perform government audit engagements. The specific areas included

- Whether the use of ad hoc evaluation committees, individual judgements, legislative review audit-type committees, written proposals, oral interviews, etc., are appropriate.
- Whether the type and size of the audit engagement should be a factor in determining the appropriate evaluation procedures.
- Under what circumstances should information concerning prior experience, education, etc., be provided and evaluated?
- Whether there are any factors that would negate the necessity for evaluation of a practitioner's technical capabilities. For example would licensing qualifications of CPAs be a suitable substitute for established technical qualifications?

Summary of Colloquium Discussions, Conclusions, and Recommendations

Summary of Discussions

There was a concensus among the colloquium participants examining the evaluation process that it was possible to

introduce uniformity into the technical evaluation process. No exception was taken to the rather disturbing problems highlighted in the background information. It was agreed however, that persons without appropriate qualifications frequently were selected to evaluate audit firms and, in those circumstances, firms were often being selected without proper consideration of their relative competence. As previously stated, the two principle problems inherent in many technical evaluations of audit proposals are:

- Technical qualification evaluations appear to be frequently performed by persons without the necessary background to judge auditor qualifications, and
- Technical qualification evaluations of a firm are often considered less important in selecting a contractor than the bid it proposes because of the difficulty usually experienced in reconciling qualitative and subjective technical evaluations with an objective and quantifiable cost evaluation.

Although discussed, the participants rejected a suggestion that contracts might be awarded for smaller audits without an evaluation of auditors qualifications. The consensus of the group was that qualifications should always be examined, although the process might be less formal for small audits. The real concern of the group was that the problems and criticisms of the profession were most often related to experiences with smaller audits which investigations indicated frequently were awarded in circumstances in which cost was clearly the overriding selection criteria.

Further, there was agreement that the mere comparison of quantifiable cost evaluations did not result in a proper, objective assessment of a prospective auditor. Accordingly, the group agreed that the submission of current statements of technical qualifications and the proper evaluation of those qualifications is necessary.

While the discussion group accepted the inclusion of cost as a proposal criterion, they agreed that extreme care should be taken to assure that this factor is not overemphasized. The group also agreed the most important aspects of evaluating competing proposals were that (1) the proposals should be analyzed by evaluators who have background and experience in the area related to the audit being considered and (2) evaluators, where appropriate, should confirm, through their own investigation, critical information included in the competing firms' proposals. Such information would include, but not be limited to, represen-

tations as to the firms experience with specific programs and the quality of its performance on prior engagements with the same or other organizations of the government.

Evaluators having inadequate background and experience will be unable to make useful comparisons of the relative merits of alternative audit approaches, or to properly assess the level of professional hours required to complete phases of the audit, or to determine if the experience of the personnel is adequate to conduct the type of audit desired.

Hours of discussion were devoted to the relative merits of an evaluator confirming independently specific critical evaluation factors submitted by proposers. Government representatives were particularly troubled by the suggestion that procurers of audit services should take the initiative in confirming the quality and the timeliness of prior audits performed by the proposing firms.

There seems to be a reluctance in a significant number of agencies and departments to eliminate from competition any firm which has previously performed substandard work. There was even greater concern, particularly on the part of procurement officials, that firms performing substandard work could be legally precluded from obtaining future government contracts until previous performance deficiencies were corrected. Reluctance of procurement officials to deal with the question of past performance may result in encouraging firms to continue to produce substandard work by awarding them additional government contracts. This is a condition that is without parallel in the private sector. No private sector organization would condone the award of new business to a supplier who has performed in a substandard fashion on earlier engagements. It was pointed out, however, that with the recent reorganization of the audit function under Inspectors General that the procurement process for audit services has been, and will continue to be performed on a more technically appropriate basis. On the specific issue of past performance, it was noted that Inspectors General are taking a much more active role in the procurement of audit services, and prior performance is being considered.

Unless information submitted by a proposing firm is subjected to independent confirmation, the procurer has no assurances that statements and qualifications described in the proposal are accurate, and more important, representative of the firm's competence. Mere comparison of paragraphs in one audit proposal to similar paragraphs in another firm's proposal does nothing to validate the information.

There were substantial discussions of the concern of some small practitioners and minority firms that the single audit will

make it more difficult for them to obtain such audits. While all agreed that special efforts are required to assure that these groups are afforded an equitable opportunity to compete, no consensus could be arrived at as to how this might be consistently achieved. It was noted that the OMB is aware of their concern and is encouraging government agencies to make use of these CPAs. In keeping with this concept, a revision of OMB Circular A-102, Attachment P, issued on September 10, 1980, indicates that the audit entity can be a department or agency of a state or local government rather than the government as a whole. The revision also requires that small or disadvantaged firms be given the "maximum practicable opportunity" to conduct these audits; this can be accomplished by direct contracts, subcontracts, or consortiums.

Conclusions and Recommendations

Conclusion

Uniform guidelines for the evaluation of technical standards do not presently exist. However, the group agreed that a comprehensive and equitable procedure should be developed which assures that qualified audit firms seeking to serve the government are properly evaluated. Presently, only a minimum amount of information is available regarding how technical proposals should be evaluated and who should evaluate them. If competition for government work is to be preserved there must be assurances that qualified firms will be fairly evaluated and that proper recognition will be given to those who diligently maintain their professional competence.

Those persons performing evaluations of technical proposals should be provided with guidelines useful in evaluating the qualifications of auditors. There is no evidence that such guidance has been previously developed and made available for use in a suitable format. The development of a publication entitled Guidelines for the Evaluation of Auditor Qualifications would be a valuable companion to the WIAF proposal guidelines.

Recommendation

The AICPA and the GAO should develop guidelines to be used by procuring entities for the evaluation of the technical qualifications of CPA firms proposing to perform audits of government programs. These guidelines could be considered with the evaluation criteria recommendations which are an outgrowth of the discussions included under Standards of Technical Qualifications. Once developed these guidelines should be submitted to the OMB for publication as part of OMB Circular A-102, Attachment P.

Conclusion

Federal agencies should exchange information on the quality of past performance of audit firms. Inquiries subsequent to the colloquium disclosed that the Department of Housing and Urban Development (HUD) does consider past performance as a qualifying criteria for additional audit engagements. Further, HUD and the GAO have on occasion exchanged information about the past performance of contractors under government contracts.

Recommendation

The GAO should issue a letter to OMB stating that consideration of the quality of past performance is an important factor in procuring professional or other contract services. The content of the opinion letter should be suitable to provide clarification to procurement officials that maintaining a list of contractors who have performed unsatisfactorily under prior contracts is not illegal and that appropriate consideration of prior performance might be the most effective protection an agency has against substandard performance.

Recommendation

The OMB should, through publication in the Federal Register, inform all those involved in Federally assisted programs that OMB Circular A-102 presumes audits are being performed by qualified firms competitively and fairly selected. The OMB should issue supplemental instructions (based on the GAO letter) to assure that in selecting auditors, evaluators are fully discharging their responsibilities including, where appropriate, independent inquiry into the quality of past performance.

Conclusion

All audit proposals should be evaluated by individuals having knowledge of and experience in performing financial and compliance audits.

Depending upon the size and complexity of the engagement under consideration, the evaluator of an auditor's qualifications may be a formal audit committee or an individual with appropriate audit experience and background. The discussion group believed that larger audit proposals should be evaluated in a manner similar to that used by large private sector corporations-- through an audit committee. For smaller audits, the discussion group suggested that organizations lacking expertise should seek assistance from local educational institutions or other locally qualified professional organizations. The cost of such services,

if any, would be nominal, but the service could significantly increase the likelihood that only qualified firms would be retained for audits. One suggestion was to enlist the assistance of the various state CPA societies, thus ensuring professional advice and guidance.

Recommendation

The OMB should, through publication in the Federal Register, inform all those involved in Federally assisted programs that OMB Circular A-102 presumes that audit contracts are awarded only after a proper evaluation has been made by persons with necessary experience and background to evaluate the relative qualifications of competing audit firms. Awards made by persons without such qualifications or without qualified assistance, do not comply with the intent of OMB Circular A-102.

CONTINUING PROFESSIONAL EDUCATION

Background

Among the questions to be asked in analyzing the current state of the continuing professional education programs applicable to government auditing, the following should be considered:

- What type of courses should qualify as continuing professional education?
- Are adequate courses currently available?
- Who, or what organizations, could, or should, provide continuing professional education courses?
- What steps, if any, should be taken to ensure satisfactory course completion?

What Courses Qualify

As mentioned earlier, a variety of courses can be considered to have continuing professional value; however, the discipline and specificity of the training are of paramount importance. Thus, the following general sources of training might be considered appropriate:

- Government-sponsored or government-supported training.
- Professionally sponsored training.
- Formal courses by qualified professionals.
- Formal self-study programs (for example, correspondence courses) that must be completed within a specific period.
- Certain relevant on-the-job training.

In each case, it would be assumed that the training developed specifically for government audit requirements is of the greatest value. Further, unstructured training or professional committee work would not seem to satisfy the desired purposes. Even though they are valuable and important, such activities would not qualify as part of a continuing professional education program.

Available Continuing Professional Education

Historically, CPAs have obtained professional training and education through continuing education courses developed by their firms and through programs developed by professional organizations. In April 1979, the New York/New Jersey Intergovernmental Audit Forum surveyed twelve training organizations and concluded that professional organizations and training institutions do not offer many formal training programs for government auditors or for CPAs doing business with the government. The forum also concluded that (1) only six professional organizations and training institutions have fairly active training programs, (2) there is duplication among the training programs offered by the six organizations, and (3) there is a general absence of courses for professionals below the manager level.

According to the forum, the following professional organizations and training institutions have fairly active training programs:

- American Institute of Certified Public Accountants (AICPA)
- Association of Government Accountants (AGA)
- Institute of Internal Auditors (IIA)
- Interagency Auditor Training Center (IATC)
- Intergovernmental Audit Forum (IGAF)
- Municipal Finance Officers Association (MFOA)

Many independent accounting firms support excellent, formally structured continuing professional education programs and on-the-job training. Some of these programs are devoted exclusively to government auditing and could be considered viable alternatives to the training programs offered by the organizations above.

Who Should Develop and Administer Continuing Professional Education?

Various organizations have demonstrated a willingness to commit resources to government-oriented continuing professional education programs; however, course development has been ad hoc, fragmented, and designed to meet the immediate needs of the specific organization involved. Attempts to coordinate efforts or to solicit each organization's viewpoints on current requirements appear to have been infrequent. Therefore, it is uncertain

whether these courses address currently perceived deficiencies in the area of government audit requirements.

For example, over the past several years, the AICPA has developed a series of formal continuing professional education courses dealing with government auditing and accounting, as well as specific government program topics. However, questions have been raised about whether the courses are relevant to the specific audit deficiencies that have been identified by the GAO and by others.

If, as experience indicates, coordination and communication are the central problems affecting the present state of government-related continuing professional education, the accounting profession and government representatives may find it desirable to establish a formal structure in which to develop and to administer a more comprehensive government-oriented continuing professional education program. Such cooperative efforts could begin with a survey of the scope, quality, and quantity of existing courses to determine whether they are meeting general professional requirements and addressing identified audit deficiencies.

Satisfactory Course Completion

Although certificates of completion are frequently awarded at the end of continuing professional education courses, no organization has implemented testing procedures to determine whether participants have effectively understood and absorbed course content. If increased emphasis is to be placed on continuing professional education as a qualification standard, implementing a testing mechanism warrants consideration.

A special AICPA task force, in reviewing continuing professional education matters, recently suggested that the Institute consider expanding the testing related to government accounting and auditing in the CPA examination process. Addressing such subjects in the examination process would certainly increase the attention accorded in this area in college course material.

Issues Explored at Colloquium

Because adequate technical knowledge is considered necessary to conduct the audits required of government programs, continuing professional education programs were evaluated to see if they provide such knowledge. Specific issues examined included

- Whether it was appropriate, from a cost-benefit standpoint, to expand currently available AICPA government-oriented continuing professional education programs.

- Whether continuing professional education programs of individual firms and organizations other than the AICPA contributed significantly to the government-oriented continuing professional education environment.
- Whether mandatory completion of government-oriented continuing professional education would be likely to improve a practitioner's performance on government audit engagements.

Summary of Colloquium Discussions, Conclusions and Recommendations

Summary of Discussions

To prepare for specific recommendations that they felt were desirable, the group drew up the following preamble as an appropriate statement of their position:

This group unanimously agreed that there are legitimate differences between government and private sector auditing. In order to do a good job in auditing government programs, there needs to be an extension of the knowledge and skills auditors must have and the techniques they must apply in this specialized field. The lack of understanding of this necessary extension is one factor that contributes to substandard performance. Education programs are a means to overcome this problem. This group believes that the educational programs should cover requirements at all levels of government-- Federal, state and local.

The group concluded they should develop a list of specific recommendations designed to improve the overall government audit educational environment. These recommendations are intended to answer the question who or what group should take what specific action?

Certain questions posed were not easily answered. For example, without detailed study, the participants were unable to conclude whether existing government-oriented continuing professional education programs impart the knowledge needed for government audits. Also, the question of whether such programs contribute significantly to an auditor's professional development was not answered within the time permitted at the colloquium. However, as pointed out in the preamble, it was determined that an auditor should possess special knowledge, skills and techniques prior to undertaking an audit of a government organization or program.

Consequently, the group discussed the need to identify the common body of knowledge a government auditor should possess prior to undertaking the audit of a government program or organization. It was pointed out that Dr. James Fox of James Madison University, through the efforts of the Association of Government Accountants, is currently completing a study intended to identify the common body of knowledge required by government accountants. The group believed that if the outcome of that study received widespread endorsement, it should represent a substantial contribution towards providing guidance on the types of courses needed to adequately train a government auditor.

Once the common body of knowledge is defined, efforts should be coordinated among various organizations to achieve the desired structure and order to CPE offerings in the government sector. While not necessarily intending to identify all those that might be involved, some of the organizations that were suggested included the AICPA, Association of Government Accountants, the Association of School Business Officials, the Institute of Internal Auditors, the Interagency Auditor Training Center, the Intergovernmental Audit Forum, and the Municipal Finance Officers Association. It was generally agreed that government agencies should be represented by the GAO and OMB.

A number of suggestions were made about how these organizations could coordinate their efforts in developing CPE courses. One suggestion was that a special group consisting of members of all organizations involved could determine which courses are needed and then allocate their preparation to the various members to avoid, as far as possible, duplication of effort. Another suggestion was that the special group act as a forum for the exchange of information on the activities of each of the member organizations.

It was agreed that courses which provide a general overview do not enable an individual to actually perform effective audits of various government grant programs. To perform an adequate and effective audit the individual must have a fairly sophisticated understanding of the program being examined. The President's Executive Group to Combat Fraud, Waste and Abuse was identified as another possible resource to be utilized in the development of courses because its numbers include the Federal Inspectors General and individuals from the Department of Justice and others who are directly involved with current requirements and grant programs.

Another aspect of CPE addressed by the participants concerned the present lack of understanding and recognition by some of the unique requirements and conditions under which government audits are performed. Practitioners and some government representatives

repeatedly expressed concern that government personnel involved in the procurement of audit services may have little knowledge of what constitutes a quality audit, including knowledge of generally accepted auditing standards, additional standards required by the government, and the nature of audit experience or background that would indicate competence in government auditing.

The participants agreed there should be a way to provide procurers of CPA services with a more detailed understanding of the work of CPAs and the specialized knowledge needed to adequately and effectively perform government engagements.

Several suggestions were made for providing guidance to the buyers of audit services. For example, conferences could be held on generally accepted auditing standards and on the unique auditing procedures required in performing government audits. Such conferences might help determine whether there is a need to develop more comprehensive CPE courses for practitioners and government procurement personnel.

It was agreed that in procuring audit services government personnel should consider the nature of CPE courses taken by the audit staff expected to be assigned to the engagement.

An additional suggestion was made to increase the emphasis placed on government accounting and auditing courses provided at the college level, which would focus attention on the need for training in the government area. In addition, increased emphasis on government accounting and auditing in the CPA exam should be considered.

Conclusions and Recommendations

Conclusion

Areas of deficiency in continuing professional education courses in government auditing could be easily identified if the common body of knowledge needed to perform government audits was identified and agreed upon by those procuring audit services.

Recommendation

The AGA is currently completing a study to define "A Common Body of Knowledge for Government Accountants." We recommend that the AGA solicit the endorsement of the AICPA, MFOA, and other organizations. It is expected that the common body of knowledge will include identification of those courses that should be included in university and college curriculum. The final product

should be used by all organizations to provide the basis for determining deficiencies in present CPE courses in government auditing.

Conclusion

There is a lack of coordination of efforts between various professional and governmental organizations in developing and scheduling continuing professional education courses in government auditing.

Recommendation

The AICPA should establish a special coordination task force to monitor and coordinate the efforts by various professional organizations and government agencies in developing and scheduling CPE courses in government accounting and auditing.

The special coordination task force should be composed of representatives from each of the professional organizations that are affected by and participate in the audit of government programs. Examples of courses that should be given high priority for development are

- A course that would provide instruction on the implementation of OMB Circular A-102, Attachment P.
- Instruction in how to perform a quality review of state and local government audit reports.

In addition, CPE courses should be developed that provide training in all aspects of the governmental environment and on the rules, regulations, and compliance features of major governmental programs. These courses should be designed to instruct the auditors on the specific audit requirements of major program audits. The President's Executive Group to Combat Fraud, Waste, and Abuse, should be used as a resource in developing these courses.

Conclusion

Specialized knowledge and training is an important and necessary factor in adequately performing government audits. There needs to be an increase in the understanding and recognition of the unique requirements and conditions under which government audits are performed. This improved understanding must be obtained by the profession in general, by Federal, state,

and local government accountants and auditors, by contract officers, and by academia.

Recommendation

The AICPA should coordinate a technical conference for members of the AICPA, GAO, OMB, and the Inspectors General, to foster a better understanding of generally accepted auditing standards and the additional government auditing standards imposed in the performance of government audit work.

The AICPA and GAO should provide guidance to Federal sponsors of grant programs who in turn, can assist their fund recipients on the type of background that procurement officers and evaluators should have to properly assess the relative merits of proposals made by competing audit firm.

The AICPA and GAO should request the various government and professional organizations (such as the AGA, MFOA, NASACT, OMB, and the Office of Personnel Management) to encourage government procurement personnel to participate in appropriate government audit CPE courses.

Further, the AICPA should recommend to OMB that all requests for proposal specify (1) the amount of CPE courses (internal or external) in government field that have been taken by the staff who will serve on the engagement and (2) that this information be considered in awarding audit contracts.

The AICPA should also identify appropriate government accounting and auditing courses that should comprise a college and university curriculum in government accounting and include such courses in the AICPA policies for academic preparation. In addition, a letter should be sent by the colligium sponsors to the public sector section of the American Accounting Association stating that they believe more emphasis should be given to government courses in the college and university curriculum. Also, specifications for the Uniform CPA Examination should include knowledge of Standards for Audit of Governmental Organizations, Programs, Activities and Functions (the yellow book), and Guidelines for Financial and Compliance Audits of Federally Assisted Programs (the red book), and OMB Circular A-102, Attachment P, by the May 1982 CPA exam.

The group discussed the AICPA Government Accounting and Auditing Education Subcommittee's project to develop a booklet on government career paths. The primary purpose of the booklet is to get more CPAs involved in and qualified to do government work. It is generally believed that as more CPAs get involved in this

area of practice the overall quality of the work will improve.
The group believes that this is a worthwhile project.

VI

FACTORS EFFECTING AN
EVALUATION OF AUDITOR PERFORMANCE

(Subsequent to the colloquium the GAO and the AICPA have taken the following actions intended to clarify some of the problem areas identified in the presentations:

The General Accounting Office has revised its Standards for Audits of Government Organizations, Programs, Activities and Functions. The revision is intended to clarify the responsibilities of auditors in performing examinations of government operations.

The Division of Professional Ethics of the AICPA has issued a proposed interpretation entitled Failure to Follow Standards and/or Procedures or Other Requirements in Government Audits. The interpretation clarifies the auditor's responsibility to comply with the requirements of government audit guides.

The Auditing Standards Board (the Board) issued an Interpretation of Statement on Auditing Standards No. 22 entitled Planning Considerations for an Audit of Federally Assisted Programs. In addition, the Board has issued a draft of a proposed statement on auditing standards entitled Working Papers. It makes clear that working papers are required for audits of financial statements or other engagements to which any generally accepted auditing standards apply.

Each of these organizations is continuing to consider matters discussed at the colloquium and the need to clarify other problem practice areas.)

* * * * *

On the morning of the third day of the colloquium presentations were made by representatives from both the government and the profession. These speakers, by reason of their current positions, have significant experience in matters dealing with auditor performance and discipline. They included

Donald L. Scantlebury, Chief Accountant and Director,
Accounting and Financial Management Division, U.S. General
Accounting Office.

James J. Leisenring, Chairman, AICPA Auditing Standards Board.

John P. Thomas, Chairman, AICPA Task Force on Audits of Federally Assisted Programs.

Edwin M. Lamb, past Chairman, AICPA Professional Ethics Executive Committee.

John J. Lordan, Chief, Financial Management Branch, Office of Management and Budget.

The session was co-chaired by John J. Adair and Thomas R. Hanley. The purpose of the session was to provide an opportunity for the representatives of government and the profession to give their views on

- Weaknesses inherent in the current contracting process.
- The effectiveness of current investigation and disciplinary actions.
- The positions that their respective disciplines are likely to take in the near future.

The first speaker was Mr. Donald L. Scantlebury.

PRESENTATION OF DONALD L. SCANTLEBURY

Mr. Scantlebury pointed out that the Federal government disburses annually approximately \$90 billion in grants to state and local governments and other grantees. These funds, he indicated, are usually spent for specific purposes or distributed to individuals who meet specific eligibility requirements. He emphasized that the most important role of the auditor was to provide satisfaction to the agencies and to Congress that funds were being used by recipients in accordance with the conditions established by law or grant terms. He said that most federal agencies do not have sufficient audit staffs to satisfy all of the federal government's auditing requirements, and accordingly, they have turned to certified public accountants for assistance. CPAs were selected for assistance because of the complexity and difficulty of the audits and because of the high degree of independence required by the work. But most important, the government turned to CPAs because the profession had already established certain performance standards and a code of ethics governing the conduct of work performed by practitioners.

He went on to identify a number of specific problems which had been identified in the review of work performed by CPAs on government engagements. He identified the basic concerns as (1) the lack of adequate working paper documentation of work performed, (2) the failure of auditors to report identified material fraud or violations of grant terms to government grantor agencies on a timely basis, (3) the failure of working papers to provide sufficient evidence to support the CPAs having performed an adequate evaluation of grantees' internal control systems, (4) the failure of CPAs to conduct examinations in accordance with grant or agency audit guides, and (5) the identification of cases in which CPA firms have performed their work in a clearly unprofessional manner.

Mr. Scantlebury cited individual examples of cases to support the previously enumerated types of deficiencies identified in CPA engagements. In his concluding remarks, he recognized that while the vast majority of engagements would appear to be performed effectively and in a professional manner, the GAO is concerned about the disturbing number of CPAs who do not appear to be complying with their own profession's auditing standards. He pointed out that in many cases deficiencies appear to result because CPAs willfully ignore the standards of the AICPA as well as those of the GAO.

He emphasized that auditing in a government environment is often quite different from performing engagements in the commercial sector, and he suspected that many auditors are not aware of the differences. He gave recognition to the recent efforts of the AICPA Professional Ethics Committee and Auditing Standards Board. He applauded their recent initiatives as growing evidence of the profession's deep interest in eliminating substandard performance. But he said correcting current deficiencies will take more than a policing action.

He indicated a deep interest in looking closely at the recommendations which would be forthcoming from the previous two days of discussions, and expressed an intention to take steps to assure that any deficiencies identified in the procurement process that are likely to lead to performance deficiencies are corrected in a timely fashion. He closed with the recognition that the government and the AICPA, working together as they have in the past few days, can achieve their mutually desired goal of quality performance on government engagements.

Mr. Scantlebury was followed by Mr. James J. Leisenring.

PRESENTATION OF JAMES J. LEISENRING

In commenting on Mr. Scantlebury's presentation, Mr.

Leisenring stated that while he was not in complete accord with the appropriateness of the sampling techniques used by the GAO to identify examples of deficient work, the techniques used may not be a relevant issue. He pointed out that the practices Mr. Scantlebury had identified were certainly undesirable, and he hoped that they represented only a small minority of the work performed by CPAs. He emphasized that it is not possible for the Institute to develop standards which will cure or prevent the performance of all deficient engagements. The Institute can only provide assistance and guidance to the vast majority of practitioners who want to conduct engagements in an acceptable fashion.

He said that questions regarding what constitutes adequate working paper documentation are of concern in work performed in the private sector, as well as in the government sector. This, he pointed out, is an issue which has recently attracted greater attention within the Institute because of questions raised in the conduct of peer reviews.

He stated, however, that even though this was a significant and important issue it was probably not as important as his conclusion that there is a high probability that we do not share a common understanding of exactly what is implied by the professions' generally accepted auditing standards. He emphasized that if his conclusion is correct, the differences of opinion concerning the meaning and intent of generally accepted auditing standards may well be a significant contributing factor in the government's lack of satisfaction with current CPA performance. This, he said, is most dramatically demonstrated by a significant number of passages included in the current redraft of the GAO "yellow book" on auditing standards. He pointed out that while, in some cases, the differences he had identified in the characterization of certain generally accepted auditing standards may be only the result of semantics, they may, more importantly, be indicative of a more serious fundamental misunderstanding of the auditors' responsibilities under generally accepted auditing standards.

As an example, he pointed to page 9 in the current draft of the "yellow book", which identifies financial statements as being part of an auditor's report. He stated that under current professional literature, the auditor's report includes only the auditor's opinion on the financial statements, and in no circumstances does professional literature identify the financial statements themselves as being a part of the auditor's report. While he suggested that this may be one of those instances which can be remedied with a slight change in wording, he cautioned that the group should not underestimate the degree of confusion which is caused by inaccurate or improper use of the terms of art developed by the profession in a fashion not originally intended.

He recommended that consideration be given to re-orienting the present draft of the "yellow book" to incorporate the exact language of generally accepted auditing standards. He pointed out that if this approach were adopted, he saw no problem in using the profession's auditing standards as a base from which to add any additional requirements unique to government auditing. As an example, he pointed out that although professional literature clearly limits the responsibility of the auditor for the detection of fraud, he appreciated the necessity in government to encourage auditors to frequently go beyond professional standards in identifying instances of fraud, waste, and abuse. However, from a cost-benefit point of view, he said it is essential that the profession and the government reach some agreement on materiality if the extension of audit procedures in the fraud, waste, and abuse areas is to be contained in a cost-benefit level.

On another point Mr. Leisenring identified some difficulties the profession is experiencing with the language included in the draft of the "yellow book" that relates to required opinions on internal accounting control. He stated that not only were there some problems relating to the use of the terms internal control and internal accounting control but, in addition, there appeared to be some misunderstanding regarding the degree of responsibility an auditor assumes for a review of controls in conjunction with the examination of an entity's financial statements. He pointed out that under existing generally accepted auditing standards the review of internal controls performed by an auditor in conjunction with a financial statement examination is not a suitable basis for a separate opinion on the entity's internal controls. He said that the recently released Statement on Auditing Standards No. 30 identifies significant differences in a review of internal control performed in conjunction with a financial statement examination and the scope and content of a separate review required for purposes of expressing an opinion on a system of internal accounting control.

He emphasized that this was another of those areas in which the government and the profession need to understand more clearly their respective requirements and responsibilities. They should seek the most reasonable means of achieving those requirements by using existing generally accepted auditing standards, modified where necessary. While he did not expect that the government intended an extended form of examination, the requirement in the current "yellow book" for an opinion on internal controls would clearly require a significantly extended examination as described under SAS No. 30. The profession needs to understand precisely what it is the government requires and to be assured that the government understands precisely what to expect from existing generally accepted auditing standards.

On the adequacy of working papers issue, he found it difficult to conceive how an intelligent and informed person could read the current pronouncements of the Institute and conclude that working papers were not an essential and integral part of an examination of financial statements. He indicated that in an effort to finally resolve any questions in this area, Section 338 of SAS No. 1 will be amended to explicitly require working papers and will probably provide additional guidance on the form and content of working papers.

On another issue he encouraged those in attendance to respond to a recently issued AICPA exposure draft related to audit sampling. The draft deals with substantive as well as compliance testing areas and, as such, should be of particular interest to government representatives. The document applies to judgmental as well as statistical sampling.

Mr. Leisenring concluded his remarks by saying that he had learned a great deal from his participation in this colloquium. He commended the sincerity of the participants and pointed out that we all share the common objective of enhancing the quality of work performed by CPAs for government agencies and departments.

He then turned the podium over to Mr. John P. Thomas for some specific comments on matters before the Board which have a particular impact on the performance of government engagements.

PRESENTATION OF JOHN P. THOMAS

Mr. Thomas began his presentation by describing the close coordination between the AICPA Auditing Standards Board and the Professional Ethics Executive Committee relating to standards and performance applicable to audits of Federally assisted programs. He said that the first efforts of the Board have been to deal with those problems which have surfaced through Ethics Committee investigations.

He cited six specific performance problem areas in which the Board was presently working. These include providing further clarification in the following areas: (1) working paper documentation, (2) identifying the entity to be included in an examination, (3) defining audit scope, particularly with respect to financial and compliance audits versus economy, efficiency, and performance examinations, (4) identification of the parties to which an auditor has a reporting responsibility, and (5) notification responsibilities when the auditor detects irregularities.

He also indicated that the ASB Task Force on Audits of Federally Assisted Programs has been attempting to determine whether some guidance is required in dealing with questions related to determining eligibility of recipients under Federal grant programs. The Board is concerned that auditors are often not aware of the necessity to satisfy themselves as to eligibility of recipients of a grant program. He emphasized that if eligibility requirements have been ignored or not complied with by the grantee it can have a serious impact on the entity's financial position. The Board is also concerned that CPAs recognize that the GAO auditing standards (the "yellow book") may require an extension of auditing procedures beyond those contemplated by generally accepted auditing standards. CPAs also need to recognize that they have different reporting requirements in the audit of Federal assistance programs beyond those currently contemplated by SAS No. 16 and SAS No. 17. Finally, the task force is considering the need for additional guidance to CPAs in the performance of compliance auditing.

Following Mr. Thomas's remarks, Mr. Hanley introduced Mr. Edwin M. Lamb, the immediate past chairman of the AICPA Professional Ethics Executive Committee.

PRESENTATION OF EDWIN M. LAMB

Prior to commencing his remarks, Mr. Lamb introduced Mr. Frank H. Whitehand, chairman of the AICPA Professional Ethics Executive Committee, and Mr. Robert White, a member of the Ethics Committee. Mr. Lamb stated that the concern of the Ethics Committee is the profession's adherence to its adopted standards of performance. As an aside, he said that in his many years of experience in dealing with Institute matters, he has never seen the Auditing Standards Board move as quickly to respond to a problem area as it has in its recent endeavors to address alleged areas of substandard performance identified in the government audit area.

He said that the recent efforts of the Ethics Committee can be traced to the 1979 GAO report to Congress which identified eight areas of alleged substandard performance by CPAs in the performance of government engagements. Of particular concern to the profession was the inclusion in that report of a letter from the Director of the Office of Management and Budget, Mr. James McIntyre, to the Comptroller General, Mr. Elmer Staats, stating, in essence, that if the alleged cases identified in the report were symptomatic of the profession's performance as a whole, serious consideration should be given to looking elsewhere for the performance of these engagements by government agencies.

He pointed out that coincidental with the publication of the GAO report, the Ethics Committee received an alleged case of substandard performance directly from the Commerce Department. In an effort to better understand the then existing environment, members of the Ethics Committee met with Mary Bass, the Inspector General of the Department of Commerce, to discuss the case in question. During the course of that discussion, the Ethics Committee asked Ms. Bass if she would make available for their review other reports received from CPAs. Ms. Bass agreed to cooperate with the efforts of the Ethics Committee.

Mr. Lamb stated that, subsequently, members of the Ethics Committee and the AICPA Federal Government Division met with Comptroller General Staats, to discuss with him the plans of the Ethics Committee to conduct an independent review of reports received by a wide spectrum of Federal agencies from CPAs. The Comptroller General lent his encouragement to the project. The next step was to hold a meeting with all of the Inspectors General to put forth the independent review plan and to seek their cooperation in providing the Ethics Committee with additional reports for their review. The Inspectors General gave their wholehearted endorsement to the program. Mr. Lamb pointed out that since that time the AICPA staff has met individually with a large number of Inspectors General and has selected from their files more than two hundred CPA reports for review.

He stated that due to the magnitude of the proposed project, it became necessary to obtain a commitment for additional resources from the AICPA Board of Directors. Additionally, it was necessary to obtain permission from the Board to form task forces composed of practitioners with government auditing experience to conduct the reviews of the individual reports selected. It was also necessary to obtain permission from the Board of Directors to conduct this type of independent investigation, since all prior activity of the Ethics Committee had been related to cases which had been reported to it. The Board of Directors endorsed the plans of the Ethics Committee and gave its permission to proceed with the recommended program.

Mr. Lamb pointed out that in less than a year the Ethics Committee has reviewed approximately two hundred and thirty cases which are currently in varying stages of completion. Of those, the review has been completed on ninety-seven cases, of which approximately thirty-five percent have been identified for further investigation. He said that it was not possible at this time to provide any conclusions about these cases, since they are all still in the process of further investigation.

He said that, as many of the attendees are aware, the rules on confidentiality surrounding these issues has been extremely

stringent in the past. However, in his opinion, one of the primary goals of this program is a better educated group of practitioners as well as government representatives. It would be very difficult to reap the educational benefits of the program if the Ethics Committee continues to be constrained in terms of their ability to discuss individual cases. Accordingly, the Ethics Committee approached the Board of Directors once again, this time for permission to initiate an amendment to the Institute's confidentiality rules which would permit discussion of the results of individual review cases with government representatives. Formally such amendment requires the ratification of the various State Societies of the Institute. The Board of Directors approved amending the rules and the exposure of the proposed rule changes to the State Societies for their approval. Mr. Lamb felt that approval would be forthcoming from the State Societies, particularly because the recommended changes were endorsed by the Board of Directors of the Institute.

Mr. Lamb concluded by reviewing the status of current AICPA activities. In his opinion the Auditing Standards Board has done an excellent job in timely responding to issues as they have developed during the last year. He cited the positive review and enforcement program initiated by the Ethics Committee, the doubling of the size of the Technical Standards Subcommittee, and the doubling of the budget of the Ethics Committee, all indications of the extreme seriousness with which the Institute is currently responding to allegations of substandard work. He emphasized that all of the programs initiated during the last year are of an ongoing nature. We must continue to work together if we are to be successful in stamping out substandard work. We as a profession don't want it to exist. We don't want to be continually embarrassed by our fellow practitioners.

He reminded the group that the voluntary program of referral is still in effect, and he hoped that government representatives in attendance would continue to use it. During the last nine months, twenty-nine alleged cases have been referred to the Ethics Committee as compared with twenty-three in the preceding seven years. He thanked the group for the opportunity to appear before them and pledged the continuing support of the Ethics Committee to the resolution of these problems.

The final presentation was given by Mr. John J. Lordan.

PRESENTATION OF JOHN J. LORDAN

Mr. Lordan said that he did not foresee any significant change in the Federal government's attitude toward using the services of independent public accountants to supplement Federal auditors in the examination of the activities of the recipients

of Federal assistance programs. (IPAs as used in this context includes both CPAs and public accountants who were licensed by their respective states prior to December 31, 1970). He did suggest, however, that some questions have been raised about how the policy should be implemented in future years. There is a growing concern over the apparent disregard of CPAs for compliance with their professional standards, as well as GAO standards, in the conduct of their work. Their research has indicated that these instances of noncompliance are found in firms of varying sizes, and most troublesome, they seem to indicate a trend toward ignoring elementary audit requirements as established by either the Institute or the government, and the maintenance of quality performance.

He said that the timing of the issuance of the most recent GAO report criticizing the profession coincided with a number of private discussions conducted within the Federal agencies concerning observed deficiencies in the work of CPAs. While he was greatly encouraged by the actions of the AICPA during the last year, he said there must be a recognition that this momentum must be sustained in the coming years. If the Institute does not show evidence of a sustained commitment to resolve the profession's perceived deficiencies, it may become necessary for the Federal government to consider alternatives to its current policy of using CPAs.

He cited, for example, that it may become necessary to pursue a course requiring the testing and registration of auditors in a program similar to that which is already practiced in a number of states, such as New Jersey. Because of the demonstrated commitment of local and minority firms to the performance of Federal grant audits, he suggested that the Federal government encourage, foster, and develop an even larger commitment on the part of these firms. Lastly, he suggested that there may come a time when the government would need to re-evaluate its policy of precluding public accountants licensed subsequent to 1970 from performing Federal assistance audits.

While he considered the Federal government's initial adoption of its policy of using CPAs as having been sound, he suggested that if the Institute is unable to improve the level of current performance, the government may seek out other elements of the accounting profession who are more willing to meet their professional responsibilities.

He stated that unfortunately, from his perception, CPAs have generally demonstrated a preoccupation with the government adopting the so-called "proper language" and "terms" to identify its needs. He cited that in recent court cases, the courts have, more often than not, judged a professional's performance more on

the substance of the work than on its form. He said that the profession must come to grips with a broader and more down-to-earth definition of a practitioner's responsibilities. He pointed out that while you can spend a great deal of time working to describe one's efforts with the proper technical terms, more important is the time spent evaluating the auditee's results.

CPAs should be seeking a better understanding of the fundamental needs of government - to protect taxpayers - and assure that funds are properly spent.

He made reference to the recently issued single audit guide and suggested that while we can all find little things to disagree upon (in terms of wording and phrasing), it was his impression that it is a good basic document and along with the recently released companion compliance audit guide represents substantial guidance to the profession.

In conclusion, Mr. Lordan suggested that, based upon campaign statements, it appears President-elect Reagan will place even greater importance on the proper audit of the disbursement of Federal funds.

COLLOQUIUM ORGANIZATION AND
LIST OF PARTICIPANTS

GAO/AICPA Colloquium
Cherry Hill Inn
Cherry Hill, New Jersey
November 5, 6, 7, 1980

COLLOQUIUM CONVENERS
E.B. Staats/P.B. Chenok

AREA
QUALIFICATIONS AND TECHNICAL
EVALUATIONS
COORDINATOR
D.L. Scantlebury

AREA
PERFORMANCE EVALUATION
AND DISCIPLINE
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GUIDELINES FOR PREPARATION OF REQUESTS FOR AUDIT PROPOSALS

DISCUSSION DRAFT



WESTERN INTERGOVERNMENTAL AUDIT FORUM

OCTOBER 1980

WESTERN INTERGOVERNMENTAL AUDIT FORUM

GUIDELINES FOR THE PREPARATION OF REQUESTS FOR AUDIT PROPOSALS

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GUIDELINES FOR PREPARATION OF REQUESTS FOR AUDIT PROPOSALS

DISCUSSION DRAFT

WESTERN INTERGOVERNMENTAL AUDIT FORUM

OCTOBER 1980

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WESTERN INTERGOVERNMENTAL AUDIT FORUM

EXPOSURE DRAFT

GUIDELINES FOR PREPARATION OF REQUESTS FOR AUDIT PROPOSALS

Introduction

Local governments today are increasingly engaging public accountants to perform financial or compliance audits. Local governments 1/ generally seek the most suitable public accounting firm by sending requests for proposals (RFPs) to public accountants asking if they would like to submit a proposal for the audit work specified in the RFP. Interested public accounting firms usually respond to these requests with a detailed audit proposal outlining the firm's qualifications, proposed audit work plans, and price for doing the audit.

RFPs issued by local governments and audit proposals prepared in response to these requests unfortunately differ widely in style and scope. Because of the wide differences, independent public accountants often find RFPs difficult to understand, and government agencies have trouble understanding the audit proposals prepared by the accountants. These guidelines have been prepared to establish a reasonable degree of consistency in the form and content of both these documents.

1/Although for the purposes of this publication, local government includes cities, counties, and special districts, these guidelines may also be helpful to state and federal agencies.

The guidelines should be used as a reminder to help ensure that all matters having a bearing on the proposal are made known to the proposer and that all necessary elements are included in the proposal. The guidelines should help both requesters and responders improve their requests and responses and should also reduce the time required to prepare them.

The guidelines are stated in general terms because requesters must be able to tailor each request for a proposal so as to clearly reflect specific needs or requirements. Accordingly, in certain areas, the guidelines are presented as suggestions which may be modified or eliminated as necessary.

These guidelines are not intended to be used for performance audits in which the economy, efficiency, and effectiveness of operations or programs are measured or evaluated.

I. INFORMATION TO BE FURNISHED BY THE REQUESTER

This section provides guidance as to the information requesters should include in the RFP to ensure that proposers have the information they need to make a responsive proposal. The importance of complete and understandable proposal requirements cannot be overemphasized.

A. Requester's Address and Recipient of Proposals

1. Give the name and address of the requester.
2. Furnish the names, addresses, titles, and telephone numbers of persons to whom questions concerning the proposal should be directed.
3. Supply information on the number of bound and sealed proposals to be delivered; the name, address, and room number of the recipient; and the date and hour by which proposals must be received.

B. Nature of Services Required

1. Describe the funds, account groups, functions, or activities to be audited.
2. State which of the following types of audits is required and any special scope requirements. The audit scope and the applicability of audit guides and programs should be stated in detail.
 - a. Examination of financial statements in accordance with (1) the generally accepted auditing standards as included in Statements on Auditing Standards, published by the American Institute of Certified Public Accountants, (2) the GAO Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and (3) the GAO Guidelines for Financial and Compliance Audits of Federally Assisted Programs.
 - b. Examination of compliance with pertinent laws, regulations, contracts, etc. The RFP should identify the applicable laws, regulations, and regulatory agencies through reference to publications such as (1) the GAO Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, (2) the GAO Guidelines for Financial and Compliance Audits of Federally

Assisted Programs, and (3) Attachment P of OMB Circular No. A-102, Uniform Administrative Requirements for Grants-In-Aid to State and Local Governments.

c. Combination of a. and b.

3. Stipulate the period to be audited.
4. Specify reports required, including special reports to federal, state, or other agencies.
5. Specify whether exit conferences are to be held and, if so, with whom.

C. Description of Entity and Records to be Audited

1. Give needed general information such as type of government (chartered or general law), population figures, budget size.
2. Specify the basis of accounting used during the year and at year's end. Specify differences in accounting among funds to be audited.
3. Describe budget records, and state whether revenues, appropriations, and encumbrances are recorded in the accounting records. Indicate the magnitude of the financial activity.
4. Describe systems, records, and procedures:
 - a. Note any available manuals, written policies, and procedures covering such items as cash, receivables, fixed assets, and liabilities.
 - b. Identify the major segments of the accounting records that are computerized and the availability of related system documentation. Also, identify hardware, operating system, and software packages.
 - c. Describe internal audit program, staff size, and extent of coverage.
 - d. Identify individuals responsible for maintaining records and preparing reports.
 - e. Identify known problems related to the accounting system or the internal control, or other problems. State any known exceptions to generally accepted

Immediately following the proposers' conference, the proposers can be shown the accounting and other applicable records).

7. State whether conference questions will be responded to in writing and whether the RFP will be amended if necessary.

E. Report Requirements

Identify the information to be included in the audit report and in the management letter referenced in the audit report.

1. Specify to whom the report is to be addressed and what financial statements are to be included in the report.
2. Reports of examinations of financial statements must (a) state the scope of the examination and that the audit was performed in accordance with generally accepted auditing standards and (b) must include an opinion as to whether the statements conform to generally accepted accounting principles.
3. Reports of compliance examinations must include a statement that the examination was conducted in accordance with applicable auditing standards. The audit report must state whether the examination disclosed instances of significant noncompliance with laws and regulations. Findings of noncompliance or ineligible expenditures must be presented in enough detail for management to be able to clearly understand them.
4. If the report to be prepared relates to a special purpose examination, specify what is to be reported.
5. Specify that a management letter is required and that it should include a statement of audit findings and recommendations affecting the financial statements, internal control, accounting, accounting systems, legality of actions, other instances of noncompliance with laws and regulations, and any other material matter.
6. State whether the auditor will be required to make a presentation to the governing body.

accounting principles or any other accounting problems.

5. State whether copies of the prior year's financial statements and budget are available.

D. Assistance Available to Proposer

1. Give the name of the auditor who made the most recent audit, the period covered, report date, and type of opinion. State whether previous audit working papers are available for inspection and where they are located. If the audit opinion was qualified, state whether the condition causing the qualification has been corrected.
2. State whether the requester's staff will be available to assist the proposer:
 - a. State whether the accounting staff can prepare schedules, reproduce documents, pull documents, etc.
 - b. State whether any internal audit time is available and whether internal audit reports are available.
 - c. State whether the data processing staff, equipment, and generalized user software are available for auditing purposes, and specify the make and model of the computer to be used and what type of operating system is used.
 - d. State whether legal counsel is available.
3. State whether the requester will issue representation letters for inventory evaluations, pledged assets, contingent liabilities, potential litigation, etc., if required.
4. State whether interfund and interdepartmental reconciliations have been made.
5. State the location of available work area and equipment and its location in relation to the records.
6. Give the place, date, and time of the proposers' conference. (A proposers' conference is advisable for large audits in order to save the requester's time answering individual questions about the RFP and also in order to treat each proposer equally.

F. Time Considerations and requirements

The following dates should be specified to the extent applicable. The RFP should state that the dates are firm unless waived in writing by an authorized person.

1. Date of proposers' conference.
2. Date and time for proposal submission.
3. Date, time, and place for selected proposer interviews, if desirable.
4. Date of contract award.
5. Dates audit work can be commenced:
 - a. Preliminary work prior to closing accounts.
 - b. Postclosing work. (Some requesters may not want auditors working during closing.)
6. Date for preliminary report completion and exit conference.
7. Date for final report submission. (The report should be submitted within thirty days of the last exit conference.)

G. Contractual Arrangements

Provide general information about the contract to be awarded. Specify the period of the contract. If the contract will be limited to one year, state the requester's intention regarding its renewal. 1/

H. Report Review, Timing, and Number of Copies

1. State that prior to submission of the completed report the audit firm's staff will be required to review a draft of the proposed report and management letter with persons named by the requester.

1/These guidelines are not to be used for full details of the contract. The Western Intergovernmental Audit Forum is considering issuing a second publication on contracting for public accounting services.

2. Specify the number of copies of the report and the number of copies of the management letter to be delivered and the person to whom the report and management letter are to be delivered.

I. Working Papers

1. Specify that the working papers will be retained for at least three years (more if necessary).
2. Specify that the working papers will be available for examination by authorized representatives of the cognizant federal audit agency and of the requester.

II. INFORMATION TO BE PROVIDED BY THE PROPOSER

In order to simplify the review process and obtain the maximum degree of comparison, requesters should require that proposals be organized in the manner specified by the RFP. The following outline suggests how a proposal can be organized to include all the information called for in the RFP.

A. Title Page

Show the RFP subject, the name of the proposer's firm, local address, telephone number, name of the contact person, and the date.

B. Table of Contents

Include a clear identification of the material by section and by page number.

C. Letter of Transmittal

Limit to one or two pages.

1. Briefly state the proposer's understanding of the work to be done and make a positive commitment to perform the work within the time period.
2. State the all-inclusive fee for which the work will be done.
3. Give the names of the persons who will be authorized to make representations for the proposer, their titles, addresses, and telephone numbers.
4. State that the person signing the letter will be authorized to bind the proposer.

D. Profile of the Proposer

1. State whether the firm is local, national, or international.
2. Give the location of the office from which the work is to be done and the number of partners, managers, supervisors, seniors, and other professional staff employed at that office.

3. Describe the range of activities performed by the local office such as auditing, accounting, tax service, or management services.
4. Describe the local office's capability to audit computerized systems, including the number and classifications of personnel skilled in computer sciences who will be on the audit.

E. Summary of the Proposer's Qualifications

1. Identify the supervisors who will work on the audit, including staff from other than the local office. Resumes for each supervisory person to be assigned to the audit should be included. (The resumes may be included as an appendix.)
2. Describe recent local and regional office auditing experience similar to the type of audit requested, and give the names and telephone numbers of client officials responsible for three of the audits listed. 1/

F. Scope Section

Clearly describe the scope of the services to be provided. 2/ Assuming that the requested services include both an examination of financial statements and a compliance examination, define the scope of services to be provided in terms of the matters discussed in the following subsections.

1. Financial Audit

- a. State whether the examination will be made in accordance with generally accepted auditing standards. 3/
- b. State that the primary purpose of the examination, unless it is otherwise intended, is to express an opinion on the financial statements and that such

1/Since it is time-consuming to get permission to use people as references, references should not be requested unless they are going to be used.

2/These are briefly defined in section I B of these guidelines.

3/Standards for the audits of financial statements are discussed in section I.B.2.

an examination is subject to the inherent risk that errors or irregularities may not be detected. State that if conditions are discovered which lead to the belief that material errors, defalcations, or other irregularities may exist, or if any other circumstances are encountered that require extended services, the auditor will promptly advise the requester. And finally, state that no extended services will be performed unless they are authorized in the contractual agreement or in an amendment to the agreement.

2. Compliance Audit. State that in accordance with the auditing standards of the cognizant federal agency or in accordance with other applicable standards 1/, the proposer will select the necessary procedures to test compliance and to disclose noncompliance with specified laws, regulations, and contracts.

G. Compensation

State the total hours and hourly rate required by staff classification and the resulting all-inclusive maximum fee for which the requested work will be done. State whether data processing will be used in the examination and, if so, estimate the data processing resources the requester will need to supply in terms of computer time, operator time, and programmer time.

H. Additional Data

Since the preceding sections are to contain only data that is specifically requested, any additional information considered essential to the proposal should be included in this section. The proposer's general information publications, such as directories or client lists, should not be included unless specifically requested. If there is no additional information to present, state "There is no additional information we wish to present."

1/Standards for audits of compliance audits are discussed in section I.B.2.

III. EVALUATION OF PROPOSALS

Proposals should be evaluated using an established method to ascertain which proposer best meets the requester's needs. Occasionally, several proposals may be so similar in quality that oral interviews may have to be arranged to assist in making the final selection. The following factors should ordinarily be considered during an evaluation.

Technical Factors

1. Responsiveness of the proposal in clearly stating an understanding of the work to be performed.
2. Technical experience of the firm.
3. Qualifications of staff.
4. Size and structure of the firm.

Cost Factors

1. Cost of the work to be performed. Although cost is a significant factor, it should not be the dominant factor. Cost should be given more importance when all the other evaluation criteria are relatively equal.

The RFP should state that the requester reserves the right to reject any and all proposals submitted and to request additional information from all proposers. It should also state that any award made will be made to the firm which, in the opinion of the requester, is best qualified.

The method of evaluating proposals may vary considerably with the size and complexity of the government agency and the scope of services required. If the method of evaluation has been predetermined, it should be described in an appendix to the RFP.

EXAMPLE OF A PROPOSAL EVALUATION METHOD

The following is an example of a method of evaluating proposals. The evaluation formula and the values assigned to the criteria given are for illustration only. Requesters should design formulas and criteria that meet their own needs.

Total scores will be determined by adding the points received for technical qualifications (maximum of 75 points) to the points received for the cost of the audit (maximum of 25 points). The total score will be determined by the following formula:

$$\frac{\text{Technical Score for this Firm}}{\text{Highest Technical Score Received}} \times 75 = \text{Technical Score}$$

$$\frac{\text{Lowest Cost of All Bids}}{\text{Cost of Bid for this Firm}} \times 25 = \text{Cost Score}$$

In the event that oral interviews are necessary, additional points will be given on a scale of 0-10. While the total score will be a significant factor, the requester reserves the right to make a final selection.

The evaluation of technical qualifications will be based on the following criteria:

The RFP could give a brief summary of how the selection process will work. Including the point range that will be used to evaluate proposals is also desirable. Included as Appendix A to these guidelines is an example of an evaluation method.

Point Range

Technical Factors:

1. Responsiveness of the proposal in clearly stating an understanding of the work to be performed. (0-20)	
a. Audit coverage	0-15
b. Realistic estimates of each program section.	0-5
2. Technical experience of the firm. (0-25)	
a. Auditing (the type of audit under consideration)	0-15
b. Auditing local governments	0-5
c. Auditing similar entities	0-5
3. Qualifications of staff, including consultants, to be assigned to the audit. Education, position in the firm, and years and types of experience will be considered. This will be determined from the resumes submitted. (0-25)	
a. Qualifications of the audit team	0-20
b. Supervision to be exercised over audit team by firm's management	0-5
4. Size and structure of the firm	0-5
Total technical points	0-75

Cost Factor:

1. Cost of the audit	0-25
Maximum points	100

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