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# Hello.

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Crowe Horwath LLP

# Agenda

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- About Crowe Horwath
- Third Party Risk Mitigation
- What Can the IG Community Do?
- Questions

# About Crowe Horwath

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- Eighth largest accounting and consulting firm in the United States according to the 2016 Accounting Today Top 100 Firms List
- More than 30 offices coast to coast within the continental United States, with 3,000+ professionals
- Leading Member of Crowe Horwath International
- Work extensively with the Federal Government, OIGs, and Special Inspectors General.

# Third Party Risk Mitigation

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- We often focus on internal operations, finances, and other matters that address internal risk.
- Federally, significant risk exists as a result of third parties, including but not limited to:
  - Contractors;
  - Recipients of Federal Financial Assistance; and
  - Vendors within the supply chain.

# Third Party Risk Mitigation (Cont.)

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- What is being done currently to mitigate risk?
  - Risk assessments during the pre-award process;
  - Audits, reviews, and assessments of contractors and financial assistance recipients;
  - Incorporation of Federal regulations within the terms and conditions of Federal award agreements;
  - Requiring and enforcing requirements pertaining to monitoring; and
  - Much, much more!

# Third Party Risk Mitigation (Cont.)

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- We will discuss some items that demonstrate specific third party risks.
- However, we must understand that risk exists in each phase.



# Example Finding #1: Foreign Currency Translation

Condition	Proposed Solution
<ul style="list-style-type: none"><li>➤ The auditee overbilled the Government as a result of having incorrectly translated invoices denominated in Canadian Dollars and British Pounds to United States Dollars.</li></ul>	<ul style="list-style-type: none"><li>➤ Ensure the understanding of staff and provide training as needed for applying ASC 830.</li><li>➤ Establish internal controls and procedures to verify the currency translation process prior to invoices submitted to the Government.</li><li>➤ Reimburse the Government for the amount of the questioned costs.</li></ul>

# Example Finding #2: Consent to Subcontract

Condition	Proposed Solution
<ul style="list-style-type: none"><li>➤ The prime contractor did not obtain the Contracting Officer's consent to subcontract with various subcontractors tested for the delivery orders (DOs) under audit, specifically.</li><li>➤ The prime contract operated under the assumption that consents to subcontract received under requests pertaining to previous DOs were adequate under subsequent DOs.</li></ul>	<ul style="list-style-type: none"><li>➤ The prime contractor should:<ul style="list-style-type: none"><li>➤ Obtain written evidence showing that the Contracting Officer at the time consented to each subcontract;</li><li>➤ Obtain evidence of an authorized deviation from FAR requirements for consent to subcontract; or</li><li>➤ Reimburse the Government for costs in question.</li></ul></li></ul>

# Example Finding #3: Certified Cost and Pricing Data

Condition	Proposed Solution
<ul style="list-style-type: none"><li>➤ The prime contractor failed to obtain and/or provide adequate supporting documentation for two subcontractors' wrap rates.</li></ul>	<ul style="list-style-type: none"><li>➤ The contractor should either:<ul style="list-style-type: none"><li>➤ Reimburse the Government for costs in question; or</li><li>➤ Provide supporting documentation that demonstrates that the wrap rates used for development of the cost proposals and for invoicing the Government were accurate, reasonable and calculated in accordance with commercial cost principles at FAR 31.2</li></ul></li></ul>

# Quantifying the Exposure

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- The aforementioned three audit findings pertaining to a February – November 2012 audit period resulted in greater than \$50 million in questioned costs.
- The exposure, however, extends beyond this report.
  - Consider that certain practices may have been in place at the time the base contract was issued in 2007;
  - The audit scope was limited to two delivery orders; and
  - Work under the base contract and in the applicable geography is ongoing.
- Similar issues have been identified through other audits as well.

# Opportunities within the OIG's Role

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- We have an opportunity to perform **value-add audit services** while meeting applicable mandates.
- Benefits the Federal Agency as it works toward **meeting strategic objectives**.
- Benefits the funding agency and the OIG by **helping to prevent and also to detect potential fraud, waste, abuse, and noncompliance**.
- Benefits the recipients and contractors who are **focusing on working with the Government in the long run**.

# Opportunities within the OIG's Role (Cont.)

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- Procurement-Specific
  - Focus on auditing the risk assessment and pre-award process;
  - Continue cost incurred audit efforts, but identify which findings pertain to items that may be addressed through procurement process enhancements;
  - Consider targeting assessments of these particular matters as these issues have not been isolated to one, two, or three Federal contractors and recipients;
  - Collaborate with DCAA and funding agency contracting units to address higher risk contracts more timely; and
  - Consider a focus on contractors' controls over subcontracting, procurement, and estimating.

# Opportunities within the OIG's Role (Cont.)

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- As auditors, we are in a unique position to add significant value. Why?
  - We see the errors, but we may also help to identify root causes;
  - We have an opportunity to provide feedback regarding the nature and language appearing in regulation (e.g., does the language itself increase the risk of noncompliance);
  - We may conduct trend analyses to identify systemic versus isolated issues; and
  - We see why findings are or are not being sustained, including instances of ambiguity in communications and/or regulation.

# Where Do We Go From Here?

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- During audit planning and risk assessment, consider expanding the concept of materiality to assess the qualitative elements (frequency and the potential long-term impact of errors);
- Collaborate with the grants, program, and contracting officers to identify recommendations that may prevent similar issues in the future; and
- Limit predictability.



# Questions

# Thank you

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