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AUDIT GUIDE FOR EPA CONTRACTS

ENVIRONMENTAL PROTECTION AGENCY

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This document is not a replacement to the Acts, the regulations, the guidelines, or the official EPA policy statements. It is a supplement to these documents, providing basic audit guidance and showing example audit reports. Any clarifications and the specific conditions of each audit should be discussed with the appropriate EPA audit Manager.

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CHAPTER 1: INTRODUCTION

1.1 PURPOSE OF AUDIT GUIDE

This guide is intended to assist the Environmental Protection Agency (EPA) auditors, independent public accountants, and auditors of public agencies to understand the special requirements for audit coverage of EPA contracts. The audit steps in this guide are intended to provide general insight into the nature and scope of audit contemplated. This guide is not intended to be a complete manual of procedures, nor is it intended to supplant the auditor's judgment of the work required to meet the audit objectives outlined in this guide. The audit procedures contained in this guide may not cover all circumstances or conditions encountered in auditing a particular contract and similarly not all of the audit procedures will apply to each contract audited. Auditors must use their professional judgment to tailor the procedures to meet conditions at the audit site so that the audit objectives set forth in the guide may be achieved.

1.2 AUTHORITY FOR AUDIT

Each of the Public Laws authorizing EPA to make grants and contracts provides that EPA shall have the authority to audit and examine the books and records of the parties receiving such financial assistance. The provisions regarding audit are clearly spelled out in the general provisions of each EPA contract.

The EPA Office of Audit is responsible for all audits of EPA contracts. The Area Audit Manager (see Appendix B) may elect to have an individual audit conducted by his staff, another Federal agency, state or local auditors, or an independent public accountant. When the Area Audit Manager elects to have the audit performed by an independent public accountant, he will notify the contractor as to which firm will perform the audit. It will be the selected firm's responsibility to contact the contractor to arrange the start of the audit.

1.3 STANDARDS OF AUDIT

Audits of EPA contracts will be made in accordance with the *Standards for Audits of Governmental Organizations, Programs, Activities, and Functions* issued by the Comptroller General in 1972. The auditor will not be required to express an opinion as to the efficiency and economy of operations or with respect to program evaluations. He may however, be requested by the Area Audit Manager to perform certain audit tests related to these aspects and to report the results of his examination.

In performing audits of EPA contracts, the auditor is expected to adhere to generally accepted auditing standards. In addition, he should utilize those portions of the American Institute of Certified Public Accountants' (AICPA) industry audit guides considered applicable. Of particular importance is the guide *"Audits of Government Contractors."*

1.4 AUDIT OBJECTIVES

The objectives of the audits of contracts are:

- to determine whether the management controls exercised by the contractor through its management system, accounting system, procurement system, and property control systems are adequate to provide assurance that costs claimed are reasonable, allowable, and allocable to the sponsored project under the contract terms and applicable sections of the Federal Procurement Regulations (FPR's),

- to review operations and report any noncompliance with applicable contract provisio or EPA rules and regulations and, based upon the review, to provide recommendations for improvement.
- to determine whether the costs claimed under the EPA contract are reasonable, allowable, and allocable to the sponsored project.

1.5 MATTERS REQUIRING IMMEDIATE ATTENTION

During the course of the audit, the auditor may encounter suspected fraud, irregularity, or collusion and insufficient evidence or inadequate systems.

1. Suspected Fraud, Irregularity, or Collusion

The purpose of audits performed in accordance with this guide is not to detect fraud, although performance of the audits may minimize fraud loss, discourage irregularities, and identify conditions of gross mismanagement. If, during the examination, instances of possible fraud, gross mismanagement, or other irregularities are identified, the auditor will:

- document the situation;
- immediately notify the Area Audit Manager of the situation encountered; and
- proceed only in accordance with instructions provided.

2. Insufficient Evidence or Inadequate Systems

Auditors are expected to use professional judgment in arriving at conclusions concerning the sufficiency of available supporting evidence. If additional guidance is needed as to the acceptability of certain evidence, the auditor should contact the Area Audit Manager or his designated representative. When insufficient data or inadequate systems preclude the reaching of conclusions concerning the reasonableness, allocability, and allowability of costs, within a reasonable period of time, the auditor must, as a minimum:

- document tests and observations to support opinions regarding insufficient evidence or inadequate systems;
- inform the Area Audit Manager by telephone and confirm by letter; and
- cease work until instructions are received.

1.6 QUALITY CONTROL

EPA retains the right to review audit work papers to evaluate the overall quality of the audit. In this regard, EPA may require copies of the audit work papers to be forwarded, along with the completed audit report, to the responsible Area Audit Manager or his designated representative. The audit work papers will be returned to the auditor upon completion of the EPA evaluation. Based on EPA's evaluation, the auditor may have to return to the job site to perform additional work required. In this regard, the auditor should retain the work papers applicable to the audit of any EPA contract for three years after completion of the assignment and submission of the required audit report.

CHAPTER 2: BACKGROUND ON CONTRACTING

2.1 GENERAL

EPA was established under Presidential Reorganization Plan No. 3 of 1970. By this Plan, the environmental functions and responsibilities of five different Federal agencies were transferred to EPA. The responsibilities transferred included research, standard-setting, monitoring, and enforcement related to all six environmental hazards: air and water pollution, solid waste disposal, radiation, pesticides, and noise.

Under the various appropriations acts, EPA has the authority to enter into contracts for services and/or products needed to further EPA programs.

2.2 METHODS OF PROCUREMENT

The two methods of EPA procurement are by formal advertising and negotiation. By law, the preferred method of procurement is formal advertising. Negotiated procurements are permitted only under certain defined exceptions to the preferred method, although these exceptions are commonly used.

Formal Advertising. Procurement by formal advertising covers four basic phases of government involvement: (a) preparation of invitations for bids, (b) publication and distribution of invitations for bids to companies appearing on qualified bidders listings, (c) receipt of bids in response to the invitation, and (d) award of contract to the lowest responsive, responsible bidder whose bid is most advantageous to the government, price and other factors considered. (See FPR 1-2)

Negotiated Procurement. "Negotiation" pertains to procurements made without the use of formal advertising. Requests for quotations or requests for proposals (commonly referred to as RFQs and RFPs) for the item to be procured are sent to contractors whose names appear on qualified bidders listings. Contractors responding to an RFQ submit only total item contract price quotations; contractors responding to an RFP usually support the total price by submitting cost and pricing data, or other evidence of reasonable prices, and in certain instances data regarding technical and management plans and capabilities for the job. The contracting officer may accept price quotations or proposals without negotiation, or he may conduct price negotiations with those firms whose offers fall within a competitive range. He may analyze, question, require audit, and bargain in important areas of the proposals. (See FPR 1-3).

2.3 TYPES OF CONTRACTS

Generally contracts may be classified within two broad categories; fixed-price contracts and cost contracts. Fixed-price contracts provide for a stated contract price, a specified scope of work, and a specified performance schedule, but may be subject to adjustment based on the application of economic price adjustment (escalation), redetermination, incentive, or other pricing provisions. Cost contracts provide for reimbursement of allowable or otherwise defined costs incurred plus a fee (profit) in many cases. Such a contract requires that the contractor use his best efforts to accomplish the scope of work within a specified time and within the stated dollar limitation.

Within these two broad categories there are presently a number of variations, the more common of which are described below.

1. Fixed-Price Contracts

Firm fixed-price contract. A contract in which the price is not subject to any adjustment by reason of the cost experience of the contractor for his performance under the contract.

Fixed-price contract providing for firm target cost incentives. A contract which provides at the outset for a firm target cost, a firm target profit, a price ceiling (but not a profit ceiling or floor), and a formula (based on the relationship which final negotiated total cost bears to total target cost) for establishing final profit and price.

Fixed-price contract providing for successive target cost incentives. A contract which provides at the outset for an initial target cost, an initial target profit, a price ceiling, a formula for subsequently fixing the firm target profit (within a ceiling and a floor established along with the formula, at the outset), and a production point at which the formula will be applied.

Fixed-price contract providing for performance incentives. A contract which incorporates an incentive to the contractor to surpass stated performance targets by providing for increases in the profit to the extent that such targets are surpassed and for decreases to the extent that such targets are not met.

Fixed-price level-of-effort term contract. A contract which usually calls for investigation or study in a specific research and development area. It obligates the contractor to devote a specified level of effort over a stated period of time for a fixed dollar amount.

2. Cost Contracts

Cost-sharing contract. A contract under which the contractor is reimbursed only for an agreed portion of costs and under which no provision is made for fee.

Cost-without-fee contract. A contract under which the contractor is reimbursed for costs with no provision for a fee.

Cost-plus-fixed-fee contract. A contract under which the contractor is reimbursed for costs plus the provision for a fixed fee.

Cost-plus-award-fee contract. A contract under which the contractor is reimbursed for costs plus a fee consisting of two parts: (1) a fixed amount which does not vary with performance and (2) an award amount based on performance in areas such as quality, timeliness, ingenuity, and cost-effectiveness. The amount of award fee is based upon a subjective evaluation by the government of the contractor's performance judged in light of criteria set forth in the contract.

Cost-plus-incentive-fee contract (Incentive based on cost). A contract under which the contractor is reimbursed for costs plus a fee which is adjusted by formula in accordance with the relationship which total allowable costs bear to the target cost. At the outset there is negotiated a target cost, a target fee, a minimum and maximum fee, and the adjustment formula.

Cost-plus-incentive-fee contract (Incentive based on performance). A contract under which a contractor is reimbursed for costs plus an incentive to surpass stated performance targets by providing for increases in the fee to the extent that such targets are surpassed and for decreases to the extent that such targets are not met.

Under cost contracts statutory limitations have been imposed on fees negotiated at the utset of the contract as follows:

- Fees for experimental, developmental, or research work cannot be more than 15 percent of estimated cost.
- Fees for architectural or engineering services for a public work or utility cannot be more than 6 percent of estimated cost.
- Fees on other cost contracts cannot be more than 10 percent of estimated cost.

It should be noted that fixed-price and cost incentive contracts may include a combination of both cost and performance incentives.

In addition to the two broad categories of contracts described above, there is a time and material contract. Under this type of contract the contractor is paid on the basis of direct-labor hours, expended at fixed hourly rates (that include direct-labor, indirect expenses, and profit), and the costs of materials or other specified costs.

2.4 RULES, REGULATIONS AND REQUIREMENTS

Companies engaged in government contracting are subject to rules and requirements set forth in the applicable procurement regulations. The Federal Procurement Regulations contain provisions covering contract clauses (FPR 1-7), terminations (FPR 1-8), and contract costing principles (FPR 1-15). In addition, general familiarity with the pronouncements of the Cost Accounting Standards Board and regulations of the Renegotiation Board is important.

The government has significant rights in the award and control of government contracts and related subcontracts not generally found in contracts between commercial enterprises. Some of the more important rights permit the government to do the following:

- Negotiate contract price adjustments depending on contract type or specific contract clauses.
- Disallow specific costs and expenses.
- Require advance agreements by contractor before sharing in certain costs and expenses.
- Provide government-furnished material or equipment.
- Terminate contracts at the convenience of the government.
- Direct changes at any time within the general scope of the contract subject to equitable adjustment of the contract price.
- Subject the contractor to preaward and post-performance audits of costs of certain contracts.

More complete guidance as to the rules and regulations which apply to an individual contract are set forth in the terms and conditions, or general provisions of the contract. A general discussion of the common contracting requirements utilized under EPA contracts is as follows:

1. Prior Approval Items

To control the contractor's cost expenditures and to ensure that EPA objectives are met contract provisions require that the contractor obtain the prior authorization and approval of the EPA contracting officer before he takes specified actions or incurs certain costs. For example, prior approval (or consent, in the case of subcontracting) is required for subcontracting under cost-reimbursement and certain other types of contracts, for reimbursement of anticipated costs to be incurred in excess of cost limitations under cost-reimbursement type contracts, and for reimbursement for overtime and premium wage payments. In all cases, the cognizant contracting officer is responsible for providing such approvals.

a. Special provisions can be written into the cost-reimbursement contract which require the contractor to obtain EPA approval before incurring costs for such special elements as travel (foreign or local), consultants, property, data processing equipment or services, etc. The contracting officer will attempt to resolve approvals on these special elements prior to contract award; however, if there are certain unknowns, this may not be possible, and prior approval requirements may have to be written into the contract. In the event the contractor is required to request approval of certain cost elements, his request will be directed to the contracting officer or his designated representative.

b. Under cost-reimbursement contracts, the contractor must obtain consent for placing (1) all cost reimbursement, time and material, and labor hours subcontracts; (2) fixed-price subcontracts that exceed $25,000 or 5 percent of the contract price; (3) any subcontract for facilities, regardless of value, or for special tooling having a value in excess of $1,000; and (4) any subcontract having experimental, developmental, or research work as one of its purposes.

The subcontract consent requirement enables the government to review proposed subcontracts with regard to the necessity for subcontracting; the technical capabilities of the prospective subcontractor; the reasonableness of the costs and subcontract terms; the type of subcontract (fixed-price, cost-reimbursement, etc.); the scope of the solicitation (competitive or noncompetitive); and the work statement, including applicable specifications, to be included in the subcontract. With regard to the subcontracts for facilities, the requirement for consent does not permit any facilities acquisition to be charged to the government unless it has been otherwise specifically authorized. Subcontract review and consent provisions are not normally included in firm fixed-price contracts.

c. Contracts are to be performed, as far as practicable, without the use of overtime, extra pay shifts, or multishifts and, in particular, without the use of overtime as a regular employment practice. Additional details on overtime are contained in the overtime clause inserted in cost type contracts.

2. Cost Overruns

A cost overrun occurs when a contractor exceeds the estimated costs or the fund limitation of a cost-reimbursement contract. Cost overruns are applicable only on cost-reimbursement type contracts because the contractor is legally responsible for any costs exceeding the total or ceiling prices of fixed-price contracts.

Under cost-reimbursement type contracts, a contractor may not be reimbursed for costs incurred in excess of the total estimated costs set forth in his contract schedule. Accordingly, if the contractor has incurred costs up to the contractual cost limitation, he is not obliged to continue performance unless the cost limitation is increased by written notification from the contracting officer. To avoid delay of work on the procurement while additional funds are being obtained, the standard "Limitation of Cost" clause contained in all cost-reimbursement research and development contracts obligates the contractor to notify the contracting officer when the costs he expects to incur in the next 60 days will increase his total incurred costs above 75 percent of the total estimated cost of the contract. The contractor must also give notice whenever he believes the total cost will be substantially higher or lower than the estimated costs for performing the contract.

3. Inventions and Data Rights

Under research and development negotiated contracts, inventions are required to be reported to EPA by the contractor. In addition, questions may arise pertaining to rights in data by the contractor and by the government. The project officer will be consulted on both the invention and rights in data type determinations which may develop during the contract period of performance.

In the event the contractor reports an invention under the EPA contract, it will be reported directly to the contracting officer. The invention report will contain all information required by the "Patent Rights" provisions of the negotiated contract. Final determination of rights to inventions shall be made by the administrator after seeking advice from EPA general counsel.

4. Monitoring and Closing Out of Contracts

The auditor should be aware of the method EPA uses to monitor and close out contracts. This information is summarized in the following paragraphs.

a. Progress Reporting of Contracts

Periodic progress reporting can serve as a tool in performance evaluation. Technical reports which the contractor is required to submit furnish most of the information needed to evaluate the physical status of the work. If cost control is a concern, the contractor will be required to submit financial reports which will outline the various elements of costs expended versus original or revised projected elements of costs. An item which is very effective is a cost/technical completion overview which requires the contractor to interpret its technical report in terms of a percentage of technical completion in relation to a percentage-of-costs-expended figure.

b. Contract Reserves

Contractual provisions covering fees, patents, royalties, etc., usually provide for the accumulation of a withholding reserve until certain contract requirements are met to the satisfaction of the contracting officer. For example, payment of fixed fee is limited to 85 percent. The withheld fee (15 percent) is payable upon submission of appropriate closing documents after final audit of the contract has been completed and all audit exceptions have been resolved. It is the contractor's responsibility to include in his reimbursement claims appropriate adjustments to cover the required accumulation and release of contract withholding reserves. The contractor should resolve with the contracting officer any questions regarding the amount of these reserves.

c. Contractor's Completion Voucher and Cumulative Claim and Reconciliation

The contractor shall submit its Completion Voucher and Cumulative Claim and Reconciliation to the accounting office and an additional copy of each directly to the contracting officer when:

- physical completion of all performance provisions of the contract and acceptance of the final report have been accomplished; and
- all costs applicable to the contract have been incurred.

The contractor shall identify the Completion Voucher by typing "Completion Voucher" in the upper right hand corner of the SF 1034 beside the voucher number. This will advise the contracting officer that the contract is ready for final audit.

d. Contractor's Final Voucher and Closing Documents

The contractor shall submit its Final Voucher and the appropriate closing documents to the accounting office and an additional copy of each directly to the contracting officer after:

- the final audit has been completed;
- all suspensions and/or audit exceptions have been resolved, and there is mutual agreement between the contractor and the contracting officer on the final allowable costs and fixed fees of the contract; and
- acceptable final fixed overhead rates for all periods involved under the contract have been approved by the contracting officer or his authorized representative and have been incorporated into the contract.

The contractor shall submit an original and four copies of the final voucher to finalize the financial settlement of the contract. The voucher shall be specifically identified as the "final voucher" and should include the remaining fee reserves and any adjustments to vouchered costs necessitated by the final settlement of the contract price. The following documents shall be submitted with the final voucher:

- contractor's release;
- assignee's release, if applicable;
- contractor's assignment of refunds, rebates, credits and other amounts;
- assignee's assignment of refunds, rebates, credits and other amounts, if applicable; and
- contractor's affidavit of waiver of lien, when required by the contract.

CHAPTER 3: PRELIMINARY PROCEDURES

3.1 PRELIMINARY PLANNING

Once a request for audit is received from EPA contract officials, the Area Audit Manager will assure that all documents necessary for audit have been provided. These will include:

- a copy of the contract (including general provisions) and all amendments.
- a copy of the Completion Voucher or Final Voucher and Cumulative Claim and Reconciliation.
- a copy of indirect cost proposals covering any periods for which the indirect cost rates have not been finalized in the contract.

The Audit Manager will review this documentation to make a preliminary determination of the scope, schedule, and resources needed for the audit. The Audit Manager will extract certain information for inclusion in an audit planning package for use in planning the audit. This package will contain the following information:

- contract number
- contractor name, address, and phone
- type of contract
- amount of contract
- amount claimed
- narrative discussion of scope of audit contemplated.

3.2 PREPARING FOR THE AUDIT

In accepting any contract from EPA, the contractor agrees to comply with those conditions or requirements contained in the contract or applicable portions of the Federal Procurement Regulations. To audit these contracts, the auditor must become thoroughly familiar with those conditions and requirements related to the individual contracts.

Accordingly, once the auditor has been selected and the preliminary audit planning has been completed, the Area Audit Manager will provide the auditor with the necessary documents (see paragraph 3.1), as well as copies of the latest EPA audit reports concerning the contractor. The auditor should:

- review in detail the contract and all amendments,
- identify any contract conditions requiring special audit attention,
- analyze the composition of costs as reflected on the completion/final voucher; and
- review prior audit reports to identify potential or known problem areas to be examined during the audit.

3.3 ENTRANCE CONFERENCE

After establishment of a mutually agreed upon date for starting the audit, an entrance conference should be held with the contractor. During this conference, the contractor should be advised of the purpose and scope of the audit. The results of the entrance conference should be documented in the audit work papers, and this documentation should include a list of entrance conference attendees.

3.4 INITIAL FIELD AUDIT PROCEDURES

In starting the audit, the auditor should:

- obtain background information on the contractor. This may be in the form of charters, bylaws, incorporation documents, or public relations documents which identify the nature of the organization's operations and key employees. In addition, the auditor should obtain copies of the organization's financial reports as well as access to any audit reports issued by the organization's internal or external auditors;

- identify any additional EPA or other Federal grants or contracts being performed by the contractor. In this regard, the auditor will obtain the contract number, the amount of the agreement, the status of the contract, and the Federal agency involved. The auditor should promptly communicate this to the Area Audit Manager so that a decision may be made as to whether the scope of the audit will be expanded to cover these agreements;

- reconcile the expenditures claimed on the completion/final voucher with those amounts shown on the cumulative claim and reconciliation and the contractor's official accounting records; and

- familiarize himself with the contractor's accounting, personnel, procurement, and property management systems as they relate to contract expenditures. In this regard, the auditor should initially obtain information regarding any established policies and procedures governing these activities. He should then perform a limited survey to identify significant weaknesses in the systems as they apply to the EPA grant, utilizing, as a minimum, the survey questionnaire contained in Appendix A of this audit guide. The survey should include sufficient testing of the records to validate the information obtained in the survey.

CHAPTER 4: AUDIT OF COSTS

4.1 BASIC GUIDELINES

Each contract contains reference to those cost principles to be used in evaluating the acceptability of costs. Generally, EPA grants or contracts will be subject to one of the following:

FPR 1-15.2 - Cost Principles for Contracts with Commercial Organizations

FPR 1-15.4 - Cost Principles for Architect-Engineer Contracts

FPR 1-15.7 - Cost Principles for Contracts with State and Local Governments

In addition to containing references to the allowability of individual types of costs, these principles contain excellent background information and guidance as to the proper treatment of costs, and the auditor should become thoroughly familiar with the information contained in them.

4.2 APPROACH TO COSTS

In conducting an audit of EPA contracts, the auditor will be attempting to reach a conclusion as to the acceptability of *costs claimed* on reimbursement vouchers submitted to EPA. When the contractor has actually incurred costs in excess of the amounts claimed or reported, the auditor may not increase the amount of the contractor's claim. He should, however, disclose by means of footnotes the extent of unclaimed or unreported costs.

The scope of audit will depend on the nature and terms of the contract. Fixed-price contracts will normally not be audited. For Labor-Hour contracts, audit effort will be limited to reviewing the support for hours charged to the contract. Similarly, time and material contract audits will be limited to examining the support for time and material charges. The audit of a cost-type contract, however, will include an analysis of all types of costs claimed. In reviewing contract costs, the auditor is evaluating each cost to determine whether it is acceptable as a charge to the EPA contract. Costs that are not acceptable will be questioned.

Costs questioned normally fall under one or more of the following categories:

1. **Unallowable costs.** Costs which are specifically unallowable under the terms of the contract or other cost principles cited in the contract or applicable EPA regulations.

2. **Unreasonable costs.** In determining the reasonableness of a given cost, consideration shall be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the conduct of the contractor's business or the performance of the contract;
- The restraints or requirements imposed by such factors as generally accepted sound business practices, arm's length bargaining, Federal and State laws and regulations, and contract terms and specifications;
- The action that a prudent businessman would take in the circumstances, considering his responsibilities to the owners of the business, his employees, his customers, the government, and the public at large; and,
- Significant deviations from the established practices of the contractor which may unjustifiably increase the contract costs.

3. **Unallocable costs.** In reviewing the allocability of costs, the auditor will be guided by the following criteria:

- A cost is allocable to a particular contract to the extent of benefits received;
- Any cost allocable to a particular project or function may not be shifted to a Federal contract to overcome fund deficiencies, avoid restrictions imposed by law or contract agreements or for other reasons; and,
- Where an allocation of joint cost will ultimately result in charges to a contract, an indirect cost rate proposal will have to be prepared to justify the equitability of the charge.

4. **Undocumented costs.** Costs for which detailed documentation is not available show that the costs claimed were in fact incurred under the EPA contract.

5. **Unapproved costs.** Costs for which contract provisions or applicable cost principles require awarding agency approval, but for which the auditor finds no evidence of such approval.

Figure 4.1 contains examples of questioned costs. The designation of a cost as questionable by the auditor does not necessarily mean that the cost will be disallowed. The final determination as to the acceptability of costs will be made by the appropriate contracting officer.

EXAMPLES OF UNALLOWABLE COSTS

- Interest on bonds or other financing
- Fines and penalties resulting from violation of Federal, State, and local laws
- Personal injury compensation or damages as a direct result of construction on the project

EXAMPLES OF UNREASONABLE COSTS

- Purchase of a six month's supply of materials during the last month of the contract
- Purchase of expensive equipment needed only for a short period when a lease would have been more economical
- Costs for which appropriate evidence is not available that the contractor employed those controls necessary to assure that the price was reasonable

EXAMPLES OF IMPROPERLY ALLOCATED COSTS

- Costs already matched to another Federal program
- Inequitable allocation of indirect costs to the contractor
- Costs allocated in total to the contract, which also benefited other contractor programs

EXAMPLES OF IMPROPER DOCUMENTATION OF COSTS

- Lack of time and attendance records, invoices, etc.
- Lack of written contracts with consultants and or subcontractors

EXAMPLES OF COSTS NOT PROPERLY APPROVED BY EPA

- Hire of consultants and/or subcontractors
- Purchase of capital equipment

4.3 PAYROLL/FRINGE BENEFITS

1. Objective

The objectives of the audit of payroll and fringe benefits costs are to determine whether:

- employee pay rates and benefits are commensurate with the type of work being performed; and
- total labor and benefit costs charged to the EPA contract are allocable and reasonable.

2. References

- FPR 1-15.205-6
- FPR 1-15.402-2
- FPR 1-15.402-3
- FPR 1-15.711-10
- FPR 1-15.711-13

3. General Audit Procedures

Amounts charged to the EPA contract will be tested to determine that appropriate salary rates were utilized for personnel working under the EPA contract, time charged was properly supported, and fringe benefits claimed actually represent the actual costs to the contractor.

4. Potential Areas Requiring Additional Audit

a. Compensation paid to key officials

In evaluating the reasonableness of compensation paid to owners of closely held corporations, partners, sole proprietors or members of their immediate families, or persons who are contractually committed to acquire a substantial financial interest in the contractor's enterprise, the auditor should determine that such compensation is reasonable for the actual personal services rendered and not a distribution of profits. Compensation is reasonable to the extent that the total amount of compensation paid under the company's established policy and conforms generally to compensation paid by other firms of the same size, in the same industry, or in the same geographic area for similar services. In the administration of this principle, it is recognized that not every compensation case need be subjected in detail to the above tests. Such tests need be applied only to those cases in which a general review reveals amounts or types of compensation which appear unreasonable or otherwise out of line.

The auditor should determine that incentive compensation for management employees, cash bonuses, suggestion awards, safety awards, and incentive compensation based on production, cost reduction, or efficient performance are paid or accrued pursuant to an agreement entered into in good faith between the contractor and the employees before the services were rendered or pursuant to an established plan followed by the contractor.

For bonuses and incentive compensation paid in stock, the auditor should determine that valuation placed on the stock transferred shall be the fair market value at the time of transfer, determined upon the most objective basis available.

b. Deferred compensation

The auditor should determine that any deferred compensation:

- is for services rendered during the contract period (except past service pension and retirement costs);
- is paid pursuant to an agreement entered into in good faith between the contractor and employees before the services are rendered or pursuant to an established plan followed by the contractor so consistently as to imply, in effect, an agreement to make such payment; and,
- is made under a plan subject to approval by the Internal Revenue Service and falls within the criteria and standards of the Internal Revenue Code and the regulations of the Internal Revenue Service.

In determining the cost of deferred compensation allowable under a contract, the auditor should ascertain whether appropriate adjustments have been made for credits or gains, including those arising out of both normal and abnormal employee turnover, or any other contingencies that can result in a forfeiture by employees of such deferred compensation.

The auditor should ascertain whether adjustments to deferred compensation for normal employee turnover have been based on the contractor's experience and on foreseeable prospects. If the contractor can demonstrate that his contributions take into account normal forfeitures, such an adjustment will be unnecessary.

c. Overtime

When the contractor has claimed costs related to overtime, the auditor should:

(1) Determine whether the employee is, under company policy, entitled to receive overtime, did work the overtime hours, and did receive payment. Wherever the individual did work, but did not receive pay, appropriate adjustment should be made to the employee's hourly or daily billing rates.

(2) Review the contractor's rationale for requiring overtime under the EPA project. Where employees are working on more than one project, there could be some question as to which project generated the overtime.

(3) Determine whether necessary justifications for overtime were prepared and submitted for approval, where required on contract terms or provisions.

d. Fringe benefits

When a contractor has computed a fringe benefit rate, the auditor should identify the basis used in computing the rate and determine that those elements making up the fringe benefit pool have not been included as a part of direct labor charges.

To prevent the contractor from over recovering fringe benefit costs, special consideration should be given to the annual or sick leave portion of fringe benefits. In this regard, the auditor should determine whether annual and sick leave costs are claimed based on the accrual or actual leave basis. Where leave costs are claimed on an accrual basis, the auditor should examine the contractor's leave policies and leave administration in detail to determine:

(1) Whether there are established annual or sick leave ceilings which could cause employees to lose accrued annual or sick leave.

(2) Whether employees are actually paid for accrued annual or sick leave upon termination or retirement.

In instances where ceilings prevent employees from utilizing accrued leave or employees do not get reimbursed for annual or sick leave upon termination or retirement, contractors should not be permitted to claim leave costs on an accrual basis. They may never incur the costs. Instead leave costs should be based on actual leave taken, not leave entitlement.

4.4 SUBCONTRACTS

1. Objective

The objective of the audit of subcontract costs is to determine whether appropriate controls were exercised to assure that the services were necessary and obtained at a reasonable price, and that the procurement provided for free and open competition.

2. References

- FPR 1-15.205-31
- FPR 1-15.403-7
- FPR 1-15.712-7

3. General Audit Procedures

The auditor should selectively review the rationale and documentation in support of subcontracts to determine that:

- the contractor evaluated his own resources to assure that the services or product could not have been provided in-house;
- the services or product was used under the EPA contract;
- the method of procurement was sufficiently competitive (see FMC 74-7);
- procurement techniques utilized by the contractor (competitive procurement or analysis of the composition of costs) were sufficient to obtain a reasonable price;
- the contractor gave consideration to the type of subcontract most appropriate for the services or product obtained. (Fixed-price contracts are appropriate when the scope and nature of work can be clearly defined. Where the scope or nature of work is more indefinite, the cost-type contract is more appropriate. The cost-plus-a-percentage-of-cost and percentage-of-cost-type contracts may not be used under EPA contracts.);
- the nature, scope, time period, and costs were specific in the subcontract;
- the contractor was satisfied with the work performed; and,
- appropriate EPA approvals were obtained for all subcontracts in excess of $10,000.

4. Potential Areas Requiring Additional Audit

The existence of subcontracts mean that a portion of the project cost records are not available at the contractor's site. The auditor should, therefore, compile a list of the subcontracts. This list should identify the subcontractors, provide the address and telephone numbers of the subcontractors, give a description of the nature of services or products provided, and indicate the type and amount of each subcontract.

a. Fixed-price subcontracts

Fixed-price subcontracts normally will not be audited. If subcontracts were obtained in such a way as to establish the reasonableness of price and that the services were needed, the related costs will be considered acceptable. If the contractor did not adequately determine the reasonableness of the fixed-price at the time of award, however, the costs will be questioned.

b. Cost-type subcontracts

Cost-type subcontracts may require audit. The auditor should determine whether the contractor has audited the subcontract or requested that an audit be performed by the cognizant Federal Audit Agency. Where such action has not been taken, the auditor should furnish the Area Audit Manager with a list of the subcontracts. The Manager will decide whether an audit is needed and, if one is needed, who will perform the audit.

The auditor selected to perform the audit should advise the party performing work under the subcontract that the review is being performed for both the prime contractor and EPA. Thus, any information gathered during the course of the audit will be made available to the prime contractor as well as to EPA.

If another agency will perform the audit, the Area Audit Manager will initiate the request for audit and provide a copy of the request to the auditor performing the review of the prime contract. The auditor does not have to wait for the results of an audit requested from another Federal agency; he should prepare the audit report and set aside the requested portions. The audit report should explain that the subcontract is being audited by another audit agency and that the results will be transmitted as soon as received.

If the Area Audit Manager has determined that no other Federal Audit Agency is cognizant and that the subcontract should be audited, the auditor should make arrangements to audit the accounting records of the subcontract to determine, that the costs billed are reasonable and allowable. The audit steps in this guide applicable to the particular types of costs claimed should be followed, and the auditor should apply those cost criteria which apply to the type of organization receiving the subcontract.

If nc audit of the subcontracts is considered necessary, the Area Audit Manager will so advise the auditor reviewing the prime contract. In such cases, the costs claimed under the subcontracts will be considered allowable if costs were claimed in accordance with subcontract provisions.

4.5 EQUIPMENT, SUPPLIES, AND MATERIAL

1. Objective

The objectives of the audit of equipment, supplies, and material costs are to determine whether:

- such items were needed and used on the sponsored projects; and
- such items were obtained on a competitive basis.

2. References

- FPR 1-15.205-22, 1-15.205-32, 1-15.205-40, 1-15.205-45, 1-15.205-50
- FPR 1-15.4
- FPR 1-15.711-18
- FPR 1-15.712-3

3. General Audit Procedures

For selected items the auditor should determine that:

- procurement was made in accordance with normal procedures and that appropriate supporting documentation was maintained;
- items purchased were not already available and were actually utilized under the EPA contract;
- these items were acquired through use of competitive purchasing techniques;
- appropriate approvals were obtained for the purchase of capital items; and,
- costs related to these capital items properly represent direct rather than indirect charges.

4.6 TRAVEL

1. Objective

The objective of the audit is to determine that the cost of travel is allowable and allocable to the EPA contract.

2. References

- FPR 1-15.205-46
- FPR 1-15.403-4
- FPR 1-15.711-28

3. General Audit Procedures

The auditor should test travel charges to determine that:

- travel costs were incurred in accordance with the contractor's travel policies and amounts do not appear grossly unreasonable as compared to Federal Travel policies;
- travel charges are adequately supported by travel vouchers and other documentation;
- travel claimed was applicable to the EPA contract;
- first-class transportation was not utilized without necessary justification; and,
- prior approval was obtained for all foreign travel.

4.7 OTHER DIRECT COSTS

1. Objective

The objective of the audit of other direct costs is to determine whether the related costs are allowable, and applicable to the EPA contract.

2. References

- FPR 1-15.2
- FPR 1-15.4
- FPR 1-15.7

3. General Audit Procedures

In general, the auditor must determine that:

- the types of expenditures involved were contemplated in the original budget and the expenditures were adequately documented;
- in instances where the contractor has established separate pools for such costs as computer services, reproduction, communications, etc., the methods used to calculate and distribute such costs are equitable;
- amounts claimed are properly supported as other direct costs and that similar costs are not recovered through indirect costing methods;
- the contractor credits to the government the applicable portion of any income, rebate, allowance, and other credit relating to any allowable costs received by or accruing to the contractor;
- when applicable, necessary approvals have been obtained from the contracting officer. For example, FPR 1-15.7 requires the specific approval for inclusion of costs related to the acquisition of data processing equipment; and,
- such costs are allowable under applicable cost principles.

4.8 INDIRECT COSTS

The indirect costs of a project are those costs not readily identifiable with the project itself but nevertheless incurred by an organization for the joint benefit of the project and other activities carried on by the organization. To recover its indirect costs, an organization must submit an indirect cost proposal showing its methods of determining the portion of indirect costs each project should bear.

Where indirect costs have been claimed and the indirect cost rates have not been finalized in the contract, the auditor will have to audit the organizations indirect cost proposal. This audit should be performed in accordance with the EPA "Audit Guide for Reviewing Indirect Cost Allocation Plans and Rate Proposals."

The auditor's use of the audited indirect cost rates will be based on the general provisions of the contract.

- Where the contract provides for an "audit determined rate," the auditor may use the audited indirect cost rate in computing the costs considered acceptable under the contract.
- Where the contract provides, for a negotiated indirect cost rate, the auditor must utilize the provisional rate contained in the contract for computing acceptable contract costs. He should, however, provide sufficient information in a footnote to the cost schedules to identify the audited rate and indicate the effect of using on contract costs.

CHAPTER 5: AUDIT OF OTHER MATTERS

During the course of the audit, the auditor will be examining the acceptability of the contractor's controls as they relate to requirements contained in regulations, Federal Management Circulars, and/or the terms of the individual contracts. A failure to adhere to contract requirements may result in the questioning of a portion or all of the contract costs.

In preparing this audit guide, we have examined in detail certain areas that should be reviewed during all contract audits. These are discussed in the following paragraphs.

5.1 PROGRAM ACCOMPLISHMENT

In addition to the basic determinations of allowability, allocability, and reasonableness, an integral part of the audit of EPA contracts entails a determination of program accomplishment. Simply stated, the auditor should address himself to the question "Did the government receive what it has paid for?" Essentially this determination is made by reviewing compliance with the terms and conditions of the government agreement. Normally contracts set forth certain milestones or objectives to be met during the course of a contract. In some instances, the contractor will be expected to submit a report or other product of his work. The auditor should perform certain basic reviews to determine whether the contractor accomplished the desired project. In this regard, the auditor will generally be reviewing records maintained by the contractor, reports prepared for contractor management or EPA, and correspondence between the contractor and EPA. Specific steps necessary to determine program accomplishment will be provided by the Area Audit Manager on a project-by-project basis.

5.2 CASH

Payments to EPA contractors are made in three ways: after-the-fact reimbursement, advance payment, and letter-of-credit. Depending on the method used, steps necessary to audit cash will vary.

1. After-the-Fact Reimbursement

This method is generally used for EPA contracts. In auditing cash when after-the-fact reimbursement has been made, the auditor should:

- determine that vouchers were submitted based on the costs recorded on the contractor's accounting records;
- determine the payments received under these vouchers; and,
- after reviewing the acceptability of costs claimed, compute the amount due the government or the contractor.

2. Advance Payments

This section reserved.

3. EPA Letter-of-Credit

This section reserved.

5.3 PROPERTY MANAGEMENT

The scope of audit of property management will vary significantly based on the type of audit performed. When the audit is a final audit and EPA has no continuing work with the contractor, the auditor should limit himself to determining that property was reported as required and that appropriate disposition action was taken. However, review of the adequacy of contractor property management systems should be emphasized when auditing organizations which have received other EPA contracts.

It is stressed that each auditor evaluating a contractor's property management system should be thoroughly familiar with the provisions of the EPA Guide for Control of Government Property by Contractors. In evaluating a contractor's property management system, the auditor should:

1. determine whether the contractor reported the acquisition or receipt of property as required by the EPA guide.

2. determine whether the contractor maintains the required property records to account for equipment purchased for use in EPA contract programs or provided by EPA.

3. evaluate the adequacy of the property records maintained and consider whether they contain necessary information, such as:

- a description of the property; and,
- the manufacturer's serial number or other identification number, the acquisition date, the cost, the source of acquisition, ultimate disposition data (including sales price and the method used to determine fair market value), and the location, use, and condition of the property.

4. ascertain whether the contractor takes a physical inventory of contract equipment and reconciles the results with property records at least once every two years to verify the existence, current utilization and continued need for the property.

5. determine whether:

- differences between the property record balances and physical balances are investigated and fully documented;
- property records are adjusted as a result of the inventory;
- the contractor takes action to dispose of an item of equipment if it is no longer needed; and,
- periodic inspections and routine maintenance are performed on all equipment.

6. select, from the property records, a sample of equipment items purchased for EPA contracts and physically inventory the equipment to see whether the system is adequate in terms of 3. above.

7. determine whether the contractor has established procedures for disposing of equipment that is no longer necessary. If he has, are the procedures adequate to ensure that EPA's equity is protected when property is sold or used as a trade-in? If the contractor has disposed of contract equipment, the auditor should ascertain whether written approval was obtained from EPA prior to the disposition and whether the net proceeds of the sale or fair market value at the time of sale, whichever was greater, were paid to EPA.

5.4 COST OVERRUNS

In reviewing the costs of a cost-type contract, the auditor may encounter instances where the contractor has incurred costs in excess of the contract amount. It is the contracting officer who makes the determination of whether or not the contract amount may be increased. The auditor should review the acceptability of total costs incurred (including the overrun). He may accept costs up to the amount of the contract. He may not, however, accept any part of the overrun. The overrun costs would be considered acceptable if the contracting officer increased the contract amount, a statement to that effect should be included in the footnotes to the cost schedules.

5.5 COST SHARING CONTRACTS

While EPA contracts normally pay the total cost of a project, some contracts for research, development, and demonstration projects are awarded on a cost sharing basis. The nature of cost sharing requirements will be spelled out in contract provisions.

In performing the audit of project costs as described in Chapter 4: Audit of Costs, the auditor will be reviewing both the contractor's and EPA's portion of the project. In reviewing the contractor's portion, the auditor should ascertain the source of the non-Federal matching share. Unless specifically authorized by law, expenditures incurred with Federal funds may not be considered a part of the non-Federal matching share.

In addition, the auditor should be alert for instances where the non-Federal matching share for the program under audit has been included as a matching share on any other Federally assisted program.

The contractor's portion of costs should be reviewed utilizing the same criteria as if he had used Federal funds.

CHAPTER 6: AUDITS OF DEFECTIVE PRICING

This Chapter Reserved.

CHAPTER 7: AUDIT OF TERMINATIONS

This Chapter Reserved.

CHAPTER 8: EXIT CONFERENCE

Through the course of the audit, the auditors are expected to discuss deficiencies disclosed during audit, their effect, and possible corrective actions with responsible officials of the audited parties. The primary purpose of these discussions is to ensure that the audited parties had an opportunity to provide additional data with respect to the problem areas identified during audit.

For the audits with no findings or audits without significant findings the auditor should notify the Area Audit Manager and then hold an exit conference with the audited party (at the site or by telephone). When the audited party is a subcontractor, a separate or joint exit conference may be held with the contractor and the subcontractor. If the audited parties desire to provide written comments with respect to matters raised in the audit, they should be furnished a copy of the draft report and afforded the opportunity to provide written comments.

For audits with significant findings, the auditor should initially discuss the findings with the Area Audit Manager by telephone. The auditor should then hold a preliminary exit conference with the audited party to discuss the factual information disclosed during the audit. It should be emphasized that the audit results and findings are tentative at that point, and that they will be included in a draft report forwarded to the audited party for written comment.

The auditor should prepare his draft audit report, highlighting the costs considered unallowable and other deficiencies disclosed during the audit. The Area Audit Manager hould be promptly furnished a preliminary copy of the draft report. If after reviewing the draft report, the Area Audit Manager agrees that the deficiencies are significant, he may meet with the responsible EPA program officials to brief them of the situation. In addition, he shall require that the contractor and other audited parties (such as those performing under subagreements) be furnished a copy of the draft audit findings and conclusions to enable review and written comment prior to the exit conference.

After receipt of written comments from the audited parties, the auditor will conduct an exit conference with each of the responsible parties involved. Thus, exit conferences must be held with the contractor and other parties having subagreements whose operations and/or costs were audited.

The auditor's workpapers shall contain the name of the auditor who conducted the exit conference, the names and positions of contractor representatives, details of the matters discussed, and a summary of the reactions of the audited parties.

A synopsis of the audited parties reactions to the conclusions and findings will be included in the section of the audit report entitled, "Comments on Compliance, Performance, and Internal Controls." When written comments are obtained, they may be included as an attachment to the report. The auditor may also include any rebuttal considered appropriate in light of the audited parties comments.

CHAPTER 9: AUDIT REPORT

9.1 INTRODUCTION

Audits of EPA contracts may result in findings and recommendations concerning costs questioned or deficiencies in the administration of the contract. For effective administration of the contracts, it is imperative that audit reports contain all findings, observations, conclusions, and recommendations resulting from the audit.

9.2 CONTENT AND FORMAT OF AUDITORS' REPORT

The audit report will be prepared in accordance with the following instructions and in the formats shown in the Example Accountant's Reports and Exhibits and Schedules contained at the end of this chapter.

1. Scope Paragraph

a. The scope paragraph will identify the contract audited and the period audited.

b. The scope paragraph will also include a statement that the examination was made in accordance with the EPA "Audit Guide for Contracts" and the GAO "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." If conditions were encountered which preclude the inclusion of such a statement, an appropriate statement will be prepared explaining the nature of conditions which required a deviation.

2. Opinion

The report will contain an opinion as to the costs claimed under the EPA contract. Based on the review of the reasonableness, allowability, and allocability of costs claimed in conjunction with contract terms and conditions and applicable Federal regulations, the auditor will classify costs as "accepted" or "questioned" in a separate schedule in the report.

3. Comments on Compliance, Performance, and Internal Controls

The report will include a separate section relating to the compliance, performance and internal control reviews made during the examination. The report should include a discussion of any deficiencies identified during the course of the audit. In addition, the report must contain comments as to the adequacy of the accounting system and procurement system.

9.3 PRESENTING THE FINDINGS

Audit findings, whether they relate to costs questioned or contract administration procedures, will be presented in sufficient written detail to ensure that report recipients may readily:

- understand the finding;
- understand the basis for the finding;
- grasp the significance of findings not directly related to the costs questioned; and
- include management improvement recommendations as applicable.

9.4 AUDITOR'S REPORT ON SUBCONTRACT COSTS

Findings and recommendations concerning costs questioned or deficiencies disclosed in the audit of subcontract costs will be reported on in a separate Schedule.

EXAMPLE AUDITOR'S REPORTS

EXAMPLE AUDITOR'S REPORT

Area Audit Manager
Office of Audit
Environmental Protection Agency
Any City, U.S.A.

(Scope)

We have examined the statement of costs claimed (Exhibit A) by the City of Anywhere, U.S.A. under EPA Contract No. XXXX for the period (month, day, year) to (month, day, year). Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" the "Audit Guide for EPA Contracts" issued February 1976 by EPA, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As part of our examination, the allowability of costs claimed under the contract was determined in accordance with the provisions of the contract and applicable Federal regulations. Schedule I sets forth the costs which we questioned in this regard and includes an explanation of the reason such costs were questioned.

. . . . . .

(Opinion)

In our opinion subject to the effects, if any, on Exhibit A of the ultimate resolution by the Environmental Protection Agency of the questionable expenditures referred to in the preceding paragraph, Exhibit A presents fairly the financial information contained therein in accordance with the financial provisions of the contract and generally accepted accounting principles.

. . . . . .

(Transition Paragraph)

In addition, in connection with our examination of the statement of costs claimed, we have reviewed the Contractor's system of internal control and compliance with provisions of the contract and applicable Federal regulations. Our report thereon appears as Exhibit B.

This report is intended for use in connection with the contract to which it refers and should not be used for any other purpose.

_____

_____

_____
DATE

_____
SIGNATURE

EXHIBIT A

City of Anywhere, U.S.A.
Statement of Costs Incurred Under EPA Contract XXXXXX
For the Period (month, day, year) Through (month, day, year)

	Costs Claimed
Personnel	$1,225,373
Indirect Costs	122,537
Equipment	368,848
Subcontracts	94,473
Total Costs	$1,811,231
Federal Share	$1,811,231

EPA Contract No. XXXXXX was awarded to the City of Anywhere, U.S.A. on (month, day, year). The scope of work under the contract provided for ". . . . . .". Work under the contract began on (month, day, year) and was completed on (month, day, year).

See Schedules A-1 through A-3 for costs accepted and questioned during the audit.

Schedule A-1

City of Anywhere, U.S.A.
EPA Contract No. XXXXXX
Statement of Costs Claimed, Accepted and Questioned
For the Period (month, day, year) Thru (month, day, year)

Description	Costs Claimed	Auditor's Recommendations: Costs Accepted	Auditor's Recommendations: Costs Questioned	Reference Notes
Personnel	$1,225,373	$1,225,373	-0-	
Indirect Costs	122,537	-0-	$122,537	1
Equipment	368,848	368,848	-0-	
Subcontracts	94,473	86,734	7,739	2
Total Costs	$1,811,231	$1,680,955	$130,276	
Federal Share	$1,811,231	$1,680,955	$130,276	

REFERENCE NOTES

1. The 10 percent indirect cost rate included in the contract was based on an indirect cost rate proposal prepared, audited and negotiated with the Department of Health, Education and Welfare for FY 1969. Since that date, the City had not prepared any indirect cost proposals. The Department of Health, Education and Welfare Guide for Local Government Agencies requires local contractors to prepare indirect cost proposals annually. Such proposals should be retained for future audit. Since the City had not prepared such proposals, it has not complied with Federal requirements and accordingly is not entitled to indirect costs.

Contractor officials indicated that they were unaware of the requirement to prepare indirect cost proposals annually.

2. Amounts accepted and questioned were based on an audit of the subcontractor's records. See Schedule A-2.

Schedule A-2

XYZ Corporation
Subcontract XXXX Under EPA Contract No. XXXXXX
Statement of Costs Claimed, Accepted, and Questioned
For the Period (month, day, year) Thru (month, day, year)

Description	Costs Claimed	Audit Recommendation: Costs Accepted	Audit Recommendation: Costs Questioned	Reference Notes
Personnel	$48,712	$45,761	$2,951	Schedule A-2(a)
Fringe Benefits	13,152	10,067	3,085	1
Indirect Costs	20,859	19,620	1,239	2
Travel	5,000	4,536	464	3
Total Costs	$87,723	$79,984	$7,739	
Fee	6,750	6,750	-0-	
Total Costs Plus Fixed Fee	$94,473	$86,734	$7,739	
Funds Provided		$94,473		
mount Due Contractor		$ 7,739		

Reference Notes

1. The Corporation claimed fringe benefits at a rate of 27 percent of direct payroll costs. This rate covered vacation, sick leave, holidays, and the company's portion of payroll taxes. In analyzing this rate, we noted that the company included the 13 days of sick leave accrued each year. Since Corporation employees are not paid for sick leave unless it is taken, the accrual does not represent an actual cost. Accordingly, we adjusted the fringe benefit rate by removing the accrual and adding in the actual sick leave taken. This reduced the Corporation's fringe benefit rate to 22 percent. We then calculated allowable fringe benefits as follows:

Claimed: 27 percent of $48,712	$13,152
Accepted: 22 percent of $45,761*	10,067
Questioned	$ 3,085

* Amount of accepted personnel costs

Corporation officials agreed with the adjustment to the fringe benefit rates.

2. Indirect costs were claimed at the fixed rate of 42 percent of direct labor included ir subcontract. Amounts questioned were computed as follows:

Claimed: 42 percent of $48,712	$20,459
Accepted: 42 percent of $45,761*	19,220
Questioned	$ 1,239

* Accepted personnel costs

3. The Corporation's administrative procedures provide a per diem rate of $25 for overnight travel. In several instances, travelers were reimbursed for actual subsistence expense which exceeded the per diem allowance. The subsistence costs in excess of the per diem are unallowable in that the costs were not incurred in accordance with the Corporation's normal practices. The total of $464 of unallowable travel costs were charged to the EPA subcontract.

Details of the unallowable claims are shown as follows:

Employee	Date of Trip	No. of Days	Subsistence	Maximum Using Per Diem	Unallowable Travel Cost
A	May 1-5, 1973	4¾	$166.82	$118.75	$ 48.07
B	May 24-30, 1973	6	382.54	150.00	232.54
C	Mar 20-25, 1974	5½	291.66	137.50	154.16
D	Mar 14-16, 1974	2¼	85.70	56.25	29.45
Total			$926.72	$462.50	$464.22

Corporation officials told us that the maximum per diem was not applied because trips were made to high cost areas.

Schedule A-2(a)

XYZ Corporation
Subcontract XXXX Under EPA Contract No. XXXXXX
Analysis of Payroll Costs

Individual	Payroll Costs Claimed	Payroll Costs Accepted	Payroll Costs Questioned	Reference Notes
A	$14,897	$13,392	$1,505	1
B	14,911	14,430	481	2
C	11,043	10,225	818	3
D	3,199	3,052	147	4
E	3,257	3,257	-0-	
F	1,405	1,405	-0-	
Total	$48,712	$45,761	$2,951	

Reference Notes

1. Mr. A was employed full time at a salary of $10,500 per annum. Mr. A is a professional employee who receives no overtime. His salary was charged to the contract at $5.05 an hours, $10,500 ÷ 2080 hours. Our analysis of Mr. A's salary claims for FY 1973 and FY 1974 are as follows:

FY 1973

Claimed: 2,350 Hours @ $5.05/Hr.,	$11,867	
Accepted: Total Salary Paid Mr. A	10,500	
FY 1973 Questioned		$1,367

FY 1974

Claimed: 600 Hours @ $5.05/Hr.,	$3,030	
Accepted: During 1974 Mr. A worked 2,150 hours by dividing 2,150 hours into Mr. A's salary, $10,500, we computed an actual salary of $4.82/hr - 600 Hours @ $4.82/Hr.,	2,892	
FY 1974 Questioned		$ 138
Total Questioned		$1,505

2. In FY 1973, Mr. B's time records showed only 1,450 hours spent on the subcontract. We have questioned the 100 hours claimed in excess of that amount at the salary rate claimed by the contractor.

100 Hours @ $4.81/Hr., $ 481

3. In FY 1974, Mr. C's time records showed only 1,300 hours spend on the subcontract. We have questioned the 200 hours claimed in excess of that amount at the salary rate claimed by the contractor.

200 Hours @ $4.09/Hr.,	$ 818

4. Mr. D was employed full time at a salary of $9,500 per annum. Mr. D is a professional employee who receives no overtime. His salary was charged to the subcontract at $4.57 an hour, $9,500 - 2080 hours. Our analysis of Mr. D's salary claims are as follows:

FY 1973			
Claimed:	700 hours @ $4.57/Hr.,	$3,199	
Accepted:	During 1973 Mr. D worked 2180 hours by dividing 2180 hours into Mr. D's salary, $9,500, we computed on actual salary of $4.36/hr. - 700 hours @ $4.36/Hr.,	3,052	
Questioned			$ 147

Corporation officials indicated that Mr. A and Mr. D had put in extra time and that they did intend to pay them for this time. They agreed however that the claims for Mr. B and Mr. C had inadvertently been overstated.

(While the Corporation may have intended to pay Mr. A and Mr. D for their overtime, no action had been taken to do so. There were no accruals of other liabilities established to indicate that payment would be made.)

EXHIBIT B

COMMENTS ON COMPLIANCE, PERFORMANCE, AND INTERNAL CONTROLS

As part of our examination, we reviewed and tested the contractor's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards the purpose of such evaluation is to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial reports. The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the costs of a system of internal accounting controls should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgement, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgements required in the preparation of financial statements. Further, projection of any evaluation of internal accounting controls to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

The *"Audit Guide for EPA Contracts"* issued February 1976 by the Environmental Protection Agency requires a review and evaluation of the adequacy of the accounting system and internal controls to safeguard assets, check the accuracy and reliability of the accounting data, promote operating efficiency, and encourage compliance with prescribed management policies and such additional fiscal, accounting, and administrative requirements as EPA may establish. We understand that procedures in conformity with the criteria referred to in the aforementioned Audit Guide are considered by EPA to be adequate for its purposes in accordance with the Audit Guide and that procedures that are not in conformity therewith indicate some inadequacy for such purposes. Based on this understanding and on our study, we believe that the City's procedures were inadequate for the purposes of EPA because of the conditions described below, which we believe are material weaknesses in relation to the contract to which this report refers. In addition to such weaknesses, other conditions which we believe are not in conformity with the criteria referred to above are described on the following pages.

PRIME CONTRACTOR'S PERFORMANCE

In June 19XX, EPA terminated this contract. The close-out report prepared by progra.. officials stated:

> "Because of the poor performance record and because continuation of this program did not support the immediate objectives of the FY 19XX program, we determined that we could not justify continuation of this program. It was decided to inform the contractor that the project would be terminated and that a final report should be submitted documenting all data and progress to date.
>
> "This office requested that the contractor submit a final technical report including the Phase I interim report updated to include a description of all field work conducted and data collected. The Phase I report, as submitted, covers a project planning and preliminary laboratory analysis in preparation for the field studies. Record-keeping and reporting on the field activities is totally inadequate. It appears that with the exception of the Phase I report the contractor dumped out his files, correspondences and all, and bound them with a cover titled final report. Unfortunately, adequate technical records of the field work are not believed to exist and personnel connected with the project left the contractor's organization before or within several weeks after the 'Final Report' was submitted. It is recommended that the 'Final Report' not be published."

Since the EPA contract was awarded to accomplish specific objectives, the acceptability of the work performed becomes critical in the determination of whether or not the contractor has earned his contract. In this instance, the program official's close-out report raised considerable doubt as to the acceptability of work performed. The report did not, however, indicate whether the contractor's "Final Report" was acceptable or sufficient competent work was performed by the contractor to earn the total EPA contract.

Recommendation: We recommend that EPA obtain a determination as to t. acceptability of the contractor's work under this contract from responsible program officials prior to closing out the contract. If EPA decides that the work was not acceptable, they should establish the value of work actually performed.

PRIME CONTRACTOR'S ACCOUNTING SYSTEM

Several improvements to the accounting system are necessary in order for it to be considered adequate. Specifically, these are the maintenance of time and attendance records, and initiation of a procedure to provide an appropriate review and authorizing signature on all "memo invoices" forwarded to the accounting division for payment.

There were no formal procedures for maintenance of time and attendance records at the time of our audit. Even though the personnel working at the Agency are employed solely for contract work, a record of time and attendance is necessary for annual and sick leave purposes and as a matter of good business practice.

The personnel working under the contract were hired as independent consultants. As such, a "memo invoice" was prepared for each employee every pay period by the administrative assistant. These "memo invoices" were then forwarded to the accounting division where individual pay checks were prepared and the expenditures recorded on the accounting records. At the time of our audit, there was no procedure in effect for a review of these invoices, or an authorizing signature by the Administrator of the Agency. As a result, the administrative assistant was preparing the documentation for payment of all pay checks, including her own, as well as other miscellaneous payments, and the accounting division made payment without further verification. In order to ensure proper internal control and protect all employees involved, "memo invoices" should be reviewed by the Administrator and an authorizing signature affixed, prior to payment.

Recommendation: We recommend that the contractor be required to implement procedures to assure that time and attendance records are maintained to strengthen internal controls over processing of "memo invoices."

Contractor's Comments: Contractor officials indicated a willingness to make the suggested changes.

PRIME CONTRACTOR'S PROCUREMENT SYSTEM

The City did not go through a competitive selection process in hiring their subcontractor. Instead, they simply hired the XYZ Corporation with whom they had done previous business. In addition, no reviews were made to determine whether the $100,000 cost proposed by the Corporation under their cost plus fixed fee contract was reasonable. Thus, the procurement was not made in accordance with FMC 74-7.

Recommendation: We recommend that the contractor be informed of the necessity of adhering to the procurement requirements contained in FMC 74-7. In this regard, they should be made aware that in the future the failure to adhere to such requirements may result in the total costs of subcontracts being disallowed.

Contractor's Comments: Contractor officials indicated that they would request a copy of FMC 74-7 and assure the adequacy of their procurement methods.

PRIME CONTRACTOR'S PROPERTY MANAGEMENT

Property was returned to EPA as required by the EPA Property Administrator.

SUBCONTRACTOR'S PERFORMANCE

The Corporation completed its work and submitted its final report to the City of Anywhere, U.S.A., on May 15, XXXX. According to correspondence, City officials accepted this report and thanked the Corporation for its excellent work.

SUBCONTRACTOR'S ACCOUNTING SYSTEM

Several improvements in the Corporation's accounting system are needed in order for it to be considered fully adequate.

The Corporation must establish procedures to adjust the payroll billing rates to reflect the actual cost of work performed. When professional employees are not paid for overtime hours, the salary charges should be computed by dividing the employees salary by the hours actually worked.

Improved reconciliation procedures are needed to assure that salary charges are based upon labor distribution records which tie with the Corporation's payroll. This will help prevent unsupported or inappropriate salary charges.

In computing its fringe benefits rate, the Corporation should include only the costs o sick leave actually expended. This will help prevent the over-recovery of fringe benefits costs.

Recommendation: We recommend that the contractor implement procedures to assure that:

(1) Salary charges are based on actual salary costs divided by actual hours worked;

(2) salary costs are properly supported by appropriate time records; and

(3) fringe benefits rates be computed exclusive of accrued sick leave.

Subcontractor's Comments: Subcontractor officials gave no indication as to whether or not they would take the required corrective actions.

Prime Contractor's Comments: The prime contractor agreed with the audit finding and recommendation.

SUBCONTRACTOR'S PROCUREMENT SYSTEM

Since no items were purchased under this subcontract, no review was made of the Corporation's procurement system.

SUBCONTRACTOR'S PROPERTY MANAGEMENT

Since no equipment has been purchased under Federal grants or contracts, no review was made of the Corporation's property management system.

EXAMPLE AUDITOR'S REPORT

Area Audit Manager
Office of Audit
Environmental Protection Agency
Any City, U.S.A.

(Scope)

We have examined the statement of costs claimed (Exhibit A) by the ABC Company, Inc. under EPA Contract No. XXXX for the period (month, day, year) to (month, day, year). Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" the "Audit Guide for EPA Contracts" issued February 1976 by EPA, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As part of our examination, the allowability of costs claimed under the contract was determined in accordance with the provisions of the contract and applicable Federal regulations. Schedule A-I sets forth the costs which we questioned in this regard and includes an explanation of the reason such costs were questioned.

. . . . . .

(Opinion)

In our opinion subject to the effects, if any, on Exhibit A of the ultimate resolution by the Environmental Protection Agency of the questionable expenditures referred to in the preceding paragraph, Exhibit A presents fairly the financial information contained therein in accordance with the financial provisions of the contract and generally accepted accounting principles.

. . . . . .

(Transition Paragraph)

In addition, in connection with our examination of the statement of costs claimed, we have reviewed the Contractor's system of internal control and compliance with provisions of the contract and applicable Federal regulations. Our report thereon appears as Exhibit B.

This report is intended for use in connection with the contract to which it refers and should not be used for any other purpose.

_____
DATE

_____
SIGNATURE

EXHIBIT A

ABC COMPANY, INC.
EPA CONTRACT NO. XXXXXX
STATEMENT OF COSTS CLAIMED

FOR THE PERIOD (MONTH, DAY, YEAR) THROUGH (MONTH, DAY, YEAR)

	COSTS CLAIMED
Personnel	$ 937,562
Equipment	46,462
Supplies	31,813
Travel	14,099
Consultation & Services	48,984
Alteration & Renovations	4,241
Data Processing	1,262
Indirect Costs	56,261
Total Costs	$1,140,684
Federal Share	$1,140,684

Schedule A-1

ABC Company, Inc.
EPA Contract No. XXXXXX
Statement of Costs Claimed, Accepted, and Questioned
For the Period (month, day, year) Thru (month, day, year)

Description	Costs Claimed	Auditor's Recommendations: Costs Accepted	Auditor's Recommendations: Costs Questioned	Reference Notes
Personnel	$ 937,562	$ 937,562		
Equipment	46,462	46,462		
Supplies	31,813	31,813		
Travel	14,099	13,199	$ 900	1
Consultation & Services	48,984	48,984		
Alteration & Renovations	4,241	4,241		
Data Processing	1,262	1,262		
Indirect Costs	56,261	56,261		
Total Costs	$1,140,684	$1,139,784	$ 900	
Federal Share	$1,140,684	$1,137,500	$3,184	2
Funds Provided		$1,137,500		

REFERENCE NOTES:

1. Costs questioned represent the cost of a trip to Montreal, Canada. While contract provisions require approval of foreign travel, we could find no evidence that such approval was obtained.

2. Contract No. XXXXXX contained a ceiling of $1,137,500. Our review disclosed, however, that the contractor incurred $1,139,784 of acceptable contract costs. The contractor is not entitled to the $2,284 overrun without approval of the Contracting Office and amendment of the contract.

EXHIBIT B

COMMENTS ON COMPLIANCE, PERFORMANCE, AND INTERNAL CONTROLS

As part of our examination, we reviewed and tested the contractor's system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards the purpose of such evaluation is to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on financial reports.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the costs of a system of internal accounting controls should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting controls to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

The "Audit Guide for EPA Contracts" issued February 1976, by the Environmental Protection Agency requires a review and evaluation of the adequacy of the accounting system and internal controls to safeguard its assets, check the accuracy and reliability of the accounting data, promote operating efficiency, and encourage compliance with prescribed management policies and such additional fiscal, accounting, and administrative requirements as EPA may establish. We understand that procedures in conformity with the criteria referred to in the aforementioned Audit Guide are considered by EPA to be adequate for its purposes in accordance with the Audit Guide and that procedures that are not in conformity therewith indicate some inadequacy for such purposes. Based on this understanding and on our study, we believe that the company's procedures were adequate for the purposes of EPA except for the conditions described below, which we believe are material weaknesses in relation to the contract to which this report refers. In addition, to such weaknesses, other conditions which we believe are not in conformity with the criteria referred to above are described on the following pages.

PERFORMANCE

According to Program Officials' evaluation of the contract, the Company has one of the best air pollution control devices in the country. No significant weaknesses were discussed in the EPA evaluation report.

ACCOUNTING SYSTEM

Based upon our review, we have determined that the Company's accounting system is adequate to account for costs incurred under the EPA contract.

'ROCUREMENT

The procurements made under the contract were handled in accordance with the Company's normal procurement practices and such practices were found to be acceptable.

PROPERTY MANAGEMENT

In reviewing the Company's property management, we found that the Company's procedures were in accordance with EPA regulations. Our tests indicated that these procedures were being followed.

APPENDIX A

SURVEY OF CONTRACTOR'S MANAGEMENT SYSTEMS

Survey of Contractor's Management Systems

System	Yes	No	N/A	W/P Ref.
Accounting				
1. Has the contractor established project accounting records to record the costs applicable to EPA contracts?				
2. Are all costs of a project recorded on these records?				
3. Are the costs in these records used as the basis for the contractor's financial status reports or vouchers?				
4. Are the costs recorded on these records reflected on and reconciled with control accounts contained in the contractor's general ledger?				
5. Are project accounts broken into subaccounts by cost element?				
6. Are comparisons made between budgeted and expended amounts to provide an early indication of overruns?				
7. Is appropriate documentation maintained to support the costs of: a. personnel? b. consultants? c. fringe benefits? d. purchases of material, supplies, and equipment? e. travel? f. other costs?				
8. Before being recorded, are the costs contained in the project accounting records subjected to review as to their reasonableness, allowability, and allocability to the EPA contracts?				
9. Are controls established to segregate costs incurred prior to or subsequent to the established contract period?				

System	Yes	No	N/A	W/P Ref.
Accounting (continued)				
10. Are the controls or procedures exercised in administering federal expenditures the same as those utilized in the expenditure of the contractor's funds? (When the contractor's requirements are more stringent than EPA requirements, it is expected that the contractor will treat federal funds as he would treat his own.)				
11. Are the contractor's accounting records subjected to an independent audit at least every two years?				
Cash				
12. Are appropriate controls in effect to determine that vouchers or requests for advances are based on actual expenditures recorded on the contractor's project accounting records?				
Personnel				
13. Are procedures established to determine that employees working under federal contracts are paid at rates comparable to the rates paid other employees?				
14. Do the personnel and/or payroll records provide support for time and attendance, leave, and earnings for all employees?				
15. Are time distribution records maintained to show the amount of time spent on federal contracts as well as the time spent on other activities?				
16. Are controls in effect which provide for personnel costs to be distributed in accordance with the time reflected on time distribution records, i.e., reconciliation of labor distribution and payroll records?				
17. Have controls been established to assure that overtime is appropriate for the project approved in accordance with company policies, and acceptable under the terms of the contract?				
18. When personnel are working on projects other than that sponsored by the federal grant, do procedures provide for the cost of overtime to be: a. charged to the federal project on which the overtime was spent? b. allocated over the individual's total work during that period? c. treated as an indirect cost? d. other?				

System	Yes	No	N/A	W/P Ref.
Personnel (continued)				
19. Have procedures been established governing the charges of personnel time related to partners or principles in closely held corporations?				
20. Are formal procedures established with respect to bonuses, retirement plans, and/or profit sharing?				
Procurement				
21. Are procedures established to determine whether professional services, equipment, material, and/or supplies requested are really needed?				
22. Are existing supplies or inventories reviewed determine whether items requested are not already available?				
23. Are formal procurement procedures established to require that equipment, material, and supplies are obtained on a competitive basis?				
24. Are solicitations obtained from several sources so that the contractor obtains the most qualified party to perform needed professional services?				
25. Are quotations obtained and reviewed to determine whether the price proposed is reasonable to the contractor and EPA?				
26. Are procedures established to determine whether the type of contract utilized is appropriate for the procurement being undertaken?				
27. Are procedures established which prohibit the contractor from utilizing types of contracts unacceptable to the Federal Government?				
28. Are internal controls utilized to determine whether contracts contain all required clauses: a. access to records? b. ownership of data? c. termination? d. applicable cost principles? e. defective pricing (fixed price contracts)?				
29. Are procedures in effect which provide for the contractor to request and obtain all required approvals: a. subcontracts? b. equipment purchases? c. other capital expenditures?				

System	Yes	No	N/A	W/P Ref.
Travel				
30. Does the contractor have adequate established policies governing reimbursement for travel?				
31. Do these policies:				
a. require the submission of travel vouchers showing the time and purpose of travel?				
b. clearly indicate the nature of expenses being claimed?				
c. require the submission of supporting documentation?				
Obligations				
32. Are procedures established to require that obligations reported are supported by appropriate purchase orders, contracts, etc?				
33. Do these procedures require that obligations are periodically reviewed with regard to their validity?				
34. Do the procedures require the timely liquidation of the obligations and the updating of information contained on financial status reports?				
Indirect Costs				
35. Has the contractor established procedures indicating which costs are considered direct costs as opposed to indirect costs?				
36. Is the contractor claiming indirect costs under federal grants and contracts?				
37. Has the contractor been submitting the required indirect cost proposals to the federal agencies or retaining them for review during audit?				
38. Have these proposals been audited and negotiated?				
Property Management				
39. Has the contractor established an equipment inventory system for controlling property obtained under federal contracts?				
40. Does this inventory system show:				
a. a description of the item?				
b. a related property tag number?				
c. the federal equity in the equipment?				
d. the location of the equipment?				
e. the condition of the equipment?				
41. Are periodic inventories made to validate inventory information?				

System	Yes	No	N/A	W/P Ref.
42. Was receipt of government property reported to EPA Property Administrator?				
43. Are procedures established governing the use of government property? Do these procedures require that such property be used only in connection with performance of under the contract on which it was provided?				
44. Do these procedures require that prior EPA approval be obtained for any changes in use or disposition of government property?				
Refunds, Rebates, and Credits				
45. Have procedures been established which require that any refunds, rebates, and credits generated under the contract be identified and that EPA receive appropriate credit for such amounts?				

APPENDIX B
EPA AREA AUDIT OFFICES AND COGNIZANT GEOGRAPHIC AREAS

Address of Cognizant EPA Area Audit Office	Geographic Area
Mr. Juan Soto, Jr. Area Audit Manager Environmental Protection Agency Mid-Atlantic Area Audit Group 401 M Street, S.W., Rm. 3704 Washington, D.C. 20460 (202) 755-0953	Pennsylvania, Delaware, Maryland, Virginia, West Virginia, and Washington, D.C.
Mr. Joseph J. DeRosa Area Audit Manager Environmental Protection Agency Eastern Area Audit Group 90 Church Street - Rm. 802 New York, NY 10007 (212) 264-5730	Maine, Connecticut, New York, Massachusetts, Rhode Island, Vermont, New Hampshire, New Jersey, Puerto Rico, and Virgin Islands
Mr. Roger Smith Area Audit Manager Environmental Protection Agency Northern Area Audit Group 1 North Wacker Drive Chicago, Illinois 60606 (312) 353-7910	Ohio, Michigan, Wisconsin, Minnesota, Indiana, Illinois, Iowa, Nebraska, Missouri, and Kansas
Mr. Truman R. Beeler Area Audit Manager Environmental Protection Agency Western Area Audit Group 100 California Street San Francisco, California 94111 (415) 556-1954	Colorado, Utah, Nevada, Hawaii, Washington, Oregon, California, Idaho, Montana, Wyoming, Arizona, North Dakota, Alaska and South Dakota
Mr. Leslie M. Buie Area Audit Manager Environmental Protection Agency Southern Area Audit Group Suite 921 1720 Peachtree Road, N.W. Atlanta, Georgia 30309 (404) 526-3623	Alabama, North Carolina, South Carolina, Florida, Georgia, Mississippi, Texas, Arkansas, Tennessee, Kentucky, Oklahoma, New Mexico, and Louisiana

APPENDIX C

REFERENCES

1. GAO "Standards for the Audit of Government Organizations, Programs, Activities, and Functions"
2. Code of Federal Regulations, Title 41, Public Contracts and Property Management, Titles 1 and 2 (of special interest are):

Parts	Description
1-2	Advertised Procurement
1-3	Negotiated Procurement
1-7	Contract Clauses
1-8	Terminations
1-15	Cost Principles for Contracts with Various Types of Organizations

3. Guide for Control of Government Property by Contractors, EPA Facilities, and Support Services Division, September 1973

Environmental Protection Agency
Region V, Library
230 South Dearborn Street
Chicago, Illinois 60604