

DCAA MEMORANDUM FOR REGIONAL DIRECTORS COVER SHEET

AUDIT GUIDANCE/MANAGEMENT MEMORANDUM NO. 04-PAC-022(R)

Date of MRD: April 9, 2004

Subject of MRD: Audit Guidance on Review of Orders under GSA Schedule Contracts

Current Audit Guidance and/or Audit Management Guidance Affected:

CAM

Paragraph *Explanation of Effect on Current Version of CAM*

AUDIT PROGRAMS

Type of Report	Document Name	Step No.	Explanation of Effect on Current Audit Program
-----------------------	----------------------	-----------------	---

SHELL AUDIT REPORTS

Type of Report	Document Name	Sec/Par.	Explanation of Effect on Current Audit Report
-----------------------	----------------------	-----------------	--

MEMORANDUMS FOR REGIONAL DIRECTORS

MRD No.	Date	Subject/Explanation of Change
----------------	-------------	--------------------------------------

INTERNAL CONTROL QUESTIONNAIRE/INTERNAL CONTROL MATRIX/INTERNAL CONTROL AUDIT PLANNING SUMMARY

ICQ/ICM/ICAPS	Section & No.	State Control(s) Affected by the Change
----------------------	--------------------------	--

DCAA PAMPHLETS/REGULATIONS/INSTRUCTIONS

DCAAP/R/I/No.	Date	Page/Sec/Par	Explanation of Effect
----------------------	-------------	---------------------	------------------------------

DMIS USER GUIDE

Explanation of Effect

DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAC 730.3.B.01/2004-08

April 9, 2004
04-PAC-022(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Review of Orders under GSA Schedule Contracts

This audit guidance identifies key issues requiring audit attention related to orders placed under GSA Schedule contracts and provides auditors with a set of procedures to follow when audit services for these orders are requested.

GSA Schedule Contracts

Significant aspects of orders placed under GSA Schedule contracts requiring audit attention are summarized below:

- Services Performed by Subcontractors – Many of the GSA Schedule contracts include the contract clause at FAR 52.232-7, Payments under Time-and-Material and Labor-Hour Contracts. In addition, the GSA’s website identifies Contractor Teaming Agreements (CTAs) as a potential area of misunderstanding between contracting parties. The GSA website states that under a CTA each team member bills the Government based on its own GSA Schedule rates. Conversely, GSA advises that if a prime contractor/subcontractor relationship exists (rather than a CTA), the prime contractor should bill for services (i.e., labor) performed by subcontractors at the prime contractor’s GSA Schedule rates, rather than at the subcontractor’s rates. However, FAR 52.232-7(b)(4)(ii) specifically limits the reimbursement of costs in connection with subcontracts to the amounts paid by the prime contractor, causing uncertainty among auditors and contractors as to what rates should be used to reimburse the prime contractor for the effort of the subcontractor.

- Open Market Items – FAR 8.401 provides that for administrative convenience, an ordering agency contracting officer may add items not on the Federal Supply Schedule (FSS) (referred to as “open market items”) to an order, issued under the FSS contract. The term “open market” is somewhat of a misnomer. Open market items would tend to imply the items are commercial items. However, FAR 8.401(d) places no limitations on the types of items the contracting officer may add. This allows for orders placed under GSA Schedule contracts to include any items not on the Schedule, such as cost reimbursable line items for material, travel, other direct costs, and even labor.

SUBJECT: Audit Guidance on Review of T&M Orders under GSA Schedule Contracts

- Travel – Travel costs may be included in the Schedule as part of the rates for service, a separate schedule item, or a cost directly reimbursable by the ordering agency. Some GSA Schedule contracts place additional limitations on the reimbursement of Travel and Living expenses including applications of Public Law 99-234, FAR 31.205-46 Travel Costs, Federal Travel/Joint Travel Regulations, and the contractor’s cost accounting practices. This may also result in a cost reimbursable line item.
- Audit Rights – Based on the FAR provisions, it appears that orders issued under the GSA Schedule contracts constitute acquisition of commercial items, which are not subject to audit of contract performance costs. However, this conclusion is at odds with the inclusion in the GSA Schedule contracts of the contract clause at FAR 52.232-7, Payments under Time-and-Material and Labor-Hour Contracts, which provides certain audit rights. It may also conflict with the contract terms related to “open market items,” including travel discussed above.

Guidance

FAOs cognizant of contractors with significant dollar value orders placed under GSA Schedule contracts need to insure that the contractor has adequate policies, procedures, and practices in place for the identification and inclusion of all cost reimbursable line items in their certified incurred cost submissions.

Auditors need to consider the following, when dealing with an order placed under a GSA Schedule Contract:

- Prime/Subcontractor relationships versus Contractor Teaming Agreements need to be clearly established.
- The incorporation of the contract clause at FAR 52.232-7, Payments under Time-and-Material and Labor-Hour Contracts, causes confusion over the nature of the Schedule contract and any attendant audit rights.
- The GSA Schedule contract provides the majority of the terms and conditions applicable to the orders placed under the GSA Schedule contract, not the individual orders themselves.
- The orders must be reviewed for “open market items” (i.e., material, travel, and other direct cost (ODC) items) not included in the GSA Schedule).

When called upon to evaluate an order placed under a GSA Schedule Contract, the auditor must:

1. Brief the order, including the RFQ, to determine:
 - If a CTA or Prime/Subcontractor relationship exists;
 - That the order line items correctly correspond to the items available on the Schedule and any that are not included in the Schedule are appropriately identified as such.

SUBJECT: Audit Guidance on Review of T&M Orders under GSA Schedule Contracts

2. Brief the GSA Schedule contract to determine the terms and conditions applicable to the Schedule items ordered. It should be noted that the GSA Solicitation is often incorporated into the final Schedule contract and will need to be briefed to gain full understanding of the contract terms and conditions.
3. Develop a matrix that breaks out the items ordered by Schedule verses non-Schedule items. The matrix should identify the applicable terms and conditions (e.g., payments clause, audit rights, FAR 31.205-46, etc.) for each item. Clearly identify the requirements for any travel costs.
4. In the case of a CTA relationship, assure that the procuring office is aware of the requirement that each team member must be paid separately.
5. Confirm the matrix with the procuring office clearly establishing the terms and conditions applicable to the orders under audit review.

Once this matrix is complete, the auditor will have a clear understanding of the line items that should be reviewed under normal audit procedures within the scope of the incurred cost audit. FAOs requested to otherwise assist contracting officers in the administration of orders issued under the GSA Schedule contracts should develop a written agreement as to the procedures to be performed and establish an agreed-upon procedure assignment.

Concluding Remarks

Since this is an emerging audit area, FAO personnel should contact regional personnel for further guidance when questions arise. If regional personnel have any questions, they should contact John Shire, Program Manager, Accounting and Cost Principles Division, at (703) 767-3247 or jshire@dcaa.mil.

/Signed/
Robert DiMucci
Assistant Director
Policy and Plans

DISTRIBUTION: C