

EFCOG Best Practice #164

Best Practice Title: Developing a risk based subcontract audit approach

Facility: Acquisition & Contracting Subgroup (ACSG) of EFCOG

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Brief Description of Best Practice:

The ACSG conducted collective discussion in order to develop a recommendation for a risk based approach to DOE prime contractors' audit of subcontracts. This recommendation includes a set of parameters that a prime contractor, using a graded approach, could consistently use as a basis for determining an appropriate level of subcontractor audit effort.

The recommended approach includes stepping through the following criteria and evaluating a firm's subcontracts for each criterion for a risk level.

1. DOE Contracting Officer Consent
2. Materiality / Dollar Value of Subcontract
3. Contract Type
4. Previously Audited Subcontractors
5. Competitive or Non-Competitive
6. Other Audit Data and Indicators
7. Specific Identification
8. Subcontract Organization – i.e. experience and type of entity

Audit resources will then be planned on a descending level of risk (i.e. high risk subcontracts first).

Why the best practice was used:

DOE prime contractors are required to manage and administer each of the subcontracts they award, including ensuring necessary audits are conducted. Prime contracts that contain Department of Energy Acquisition Regulation (DEAR) Clauses 970.5232-3 and 970.5244-1 require the prime contractors to either conduct or arrange for periodic audits of their cost-type subcontractors' costs. Specifically, DEAR 970-5244-1(e) (i) requires periodic post award audits of cost reimbursement subcontracts. In addition, the DOE/IG-0885 report identified that not only cost reimbursement agreements be reviewed but also recommended that certain aspects of time and material agreements be reviewed as well. According to the subject report the purpose of the audit is to ensure that associated costs incurred are allowable.

What are the benefits of the best practice:

Approval of the necessary risk based subcontract audit approach as required by the fore mentioned clauses.

What problems/issues were associated with the best practice:

Prime contractor specifics must be applied to the approach as appropriate to ensure a complete plan.

How the success of the Best Practice was measured:

Success was measured by DOE approval of a plan.

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Description of process experience using the Best Practice:

The robust discussion between the contractors of the ACSG was beneficial to all involved.

Note: The above product was developed from collective contractor input and does not represent government opinion or endorsement.