

Guidelines for Preparation of Requests for Audit Proposals

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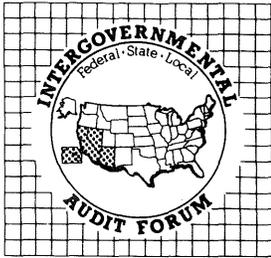


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Western Intergovernmental Audit Forum





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To All Users of the Guidelines for the Preparation of Requests for Audit Proposals

The Western Intergovernmental Audit Forum is pleased to distribute these guidelines to interested parties in both the public and private sectors.

The guidelines were developed to improve the content and consistency of requests for proposals, thus bringing about a better matching of the audit requirements with the professional services being offered. The passage of the Single Audit Act of 1984 emphasized the need to strengthen the audit activities of governmental units. We hope that the guidelines help accomplish this goal.

The guidelines were developed by a subcommittee of the Western Intergovernmental Audit Forum. They were issued in June 1981 and revised in February 1986. Participants included members from federal, state and local governments, as well as the CPA community.

At the time of this printing, the National Intergovernmental Audit Forum is preparing a handbook on audit procurement to be titled "How to Avoid a Substandard Audit: Suggestions for Procuring an Audit." Organizations intending to obtain audit services may wish to use that handbook in conjunction with these guidelines.

We wish to express appreciation to all of the members and affiliates of the Western Intergovernmental Audit Forum who helped develop the guidelines.

Sefton Boyars
Chairman
April 19, 1988

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GUIDELINES FOR PREPARATION
OF
REQUESTS FOR AUDIT PROPOSALS

WESTERN INTERGOVERNMENTAL AUDIT FORUM
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CHAPTER I

INTRODUCTION

INTENDED USE

This publication is intended for use by all local governmental entities, including cities, counties, school districts, and special districts. These guidelines should also be helpful to State and Federal agencies in contracting for professional financial and compliance auditing services. Such entities should seek out qualified independent auditors by sending a Request for Proposal (RFP) in a form which will result in comparable and comprehensive proposals to assure that audit services are provided as specified in the request. Another important aspect in using the RFP process is that it provides certain assurances that competitive review and selection procedures were applied in contracting for the audit. Small and minority audit firms should have maximum opportunity to submit proposals for auditing services.

It is essential that requests for proposals for auditing services be comprehensive and cover all matters, issues, subjects which have a bearing on the audit. Information about the entity to be audited and necessary elements of the audit requirements must be provided to the independent auditors to assure clear and complete responses. Interested respondents usually respond to requests for proposals with a detailed audit proposal which outlines the firms qualifications, references, proposed audit work plan, and the price of doing the audit. However, RFP's issued by local governments and the audit proposals submitted in response to those requests often differ widely in style and scope. Because of such wide differences in RFP's, auditors may find them difficult to understand or may respond with a work plan that does not meet all audit requirements. These guidelines establish a reasonable degree of consistency in the form and content of the Request for Proposal and of the expected response from independent auditors.

Governmental entities should seriously consider engaging the independent auditor for longer than a single year audit, perhaps for a three to five year period. The longer period would enable the auditor to gain insights into the entity being audited which in turn should produce certain economies and audit efficiencies from the longer engagements. Contract documents should fully comply with legal requirements concerning extended service periods. Letters of understanding may be appropriate when multi-year engagements are desirable but where conditions preclude other than single year service contracts.

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These guidelines are stated in general terms to provide service requesters flexibility in tailoring each request for proposal to reflect their specific needs and requirements. They also give recognition to differences in relative size of an audit engagement.

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

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CHAPTER II

ESSENTIAL ELEMENTS OF AN RFP

NOTICE OF PROPOSAL

The Request for Proposal document should be communicated to the independent auditors by any appropriate form and manner to assure open and competitive coverage. A public notice may or may not be required. Also, other methods of communicating requests for auditing services may be desirable, such as contact with the state CPA Society or the local chapter. Invitation for bid listings in newspapers are the commonly used public notice.

The notice of proposal (or letter of transmittal) to prospective respondents should briefly summarize all important information regarding the RFP. It may include:

1. Name and address of entity issuing the RFP.
2. Name, address, title and phone number of person(s) to contact regarding questions.
3. Response due date and time deadline.
Consequences of late responses.
4. Number of copies of response.
5. Contract period (year(s) to be audited).
Clarify if multi-year contract proposal.
6. Specific location and method of delivery of response.
Specify sealed response/price requirements, if any.
7. Other stipulations and clarifications as required.
8. Name, title and signature of entity official who transmits the proposal.

INTRODUCTORY INFORMATION

The RFP package may include an introductory or preliminary section covering general explanatory information to clarify any special points or items of interest. For example, this section could be used to discuss preproposal conference plans and procedures, as well as general information on evaluation of proposals and the bid opening and notification process. If used, the section would amplify on the detailed materials to follow in the package to enhance reader understanding.

This section is optional. Its use may be dependent on the size and complexity of the audit.

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DESCRIPTION OF ENTITY AND RECORDS TO BE AUDITED

This section should contain detailed information, as follows:

1. Give needed general information such as type of government (chartered or general law), population, and budget size. Identify the component units included in the reporting entity, their size, their auditors and their fiscal year operating period. Indicate when their financial statements and auditor's reports (if covered separately) will be available.
2. Specify the number and type of funds and the basis of accounting used during the year and at year's end. Specify differences in accounting among funds to be audited. Clearly identify whether the audit is to be conducted at the fund type level or the individual fund level.
3. Describe budget records, and state whether revenues, appropriations, and encumbrances are recorded in the accounting records. Indicate the magnitude of the financial activity, including the number and location of bank accounts, number of tax receivable accounts, number of employees and payroll listings.
4. Describe systems, records, and procedures:
 - a. Note any available manuals, written policies, and procedures covering such items as cash, receivables, fixed assets, and liabilities.
 - b. Identify the major segments of the accounting records that are computerized and the availability of related system documentation. Also, identify hardware, operating system, and software packages.
 - c. Describe internal audit program, staff size, and extent of internal audit coverage.
 - d. Identify individuals responsible for maintaining records and preparing reports.
 - e. Identify known problems related to the accounting system or the internal control, or other problems. State any known exceptions to generally accepted accounting principles or any other accounting problems.
 - f. In those rare cases where records cannot be made available for inspection during the proposal process, describe the condition and completeness of the records the auditor should assume in his proposal.
5. State whether copies of the prior year's audit reports, management letters, financial statements and budget are available.
6. Describe sub-recipient entities and related records to be audited.

NATURE OF SERVICES REQUIRED

The scope of audit services being requested should be specified, indicating what type(s) of audits are required and any special scope requirements. The audit scope should be stated in detail in the Request for Proposal.

1. Financial and Compliance Audits Under the Single Audit Act

Under the Single Audit Act of 1984, Federal Public Law 98-502, each state and local government which receives \$100,000 or more in federal financial assistance in a fiscal year is subject to the requirements of the Act and any implementing regulations prescribed by the Office of Management and Budget (OMB). Since passage of the Act, OMB has issued its new Circular A-128 which outlines the single audit requirements. Governments receiving more than \$25,000 but less than \$100,000 have the option of having a single audit or separate program audits as required by the applicable Federal statutes and regulations.

The additional audit requirements imposed by the Single Audit Act and OMB Circular A-128 may be omitted from the RFP if the governmental unit is not subject to the Act. For example, governmental units receiving less than \$25,000 are exempt from requirements of the Act. However, if a state or local government receives \$25,000 or more in General Revenue Sharing Funds in a fiscal year, it must have an audit of the entire operations at least once in a three year period. Further, local government units may still elect to have a single audit performed.

A series of audits of individual departments, agencies, and establishments for the same fiscal year may be considered a single audit.

A. Scope of the Audit

The Single Audit Act provides that:

1. The audit shall be made by an independent auditor. An "independent auditor" means (1) a State or local government auditor who meets the independence standards specified in the generally accepted government auditing standards, or (2) a public accountant who meets such independence standards.
2. The audit shall be made in accordance with generally accepted government audit standards covering financial and compliance audits. These standards mean the Standards for Audit of Government Organizations, Programs, Activities, and Functions, developed by the Comptroller General (GAO). The current edition, dated February 1982 should be used as reference.

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3. The audit shall cover the entire operations of the state or local government, or at the option of that government, it may cover subordinate units that received, expended, or administered federal financial assistance during the fiscal year.

B. Requirements of the Auditor

OMB Circular A-128 specifies that the auditor shall determine whether:

1. The financial statements of the government, department, agency or establishment present fairly its financial position and results of its financial operations in accordance with generally accepted accounting principles (GAAP).
2. The organization has internal accounting and other control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations, and that
3. The organization has complied with laws and regulations that may have material effect on its financial statements and on each major federal assistance program. A major program is defined as being the larger of \$300,000 or 3 percent of the total federal expenditures of each program resources (emphasis added), for federal financial assistance up to \$100 million. The scale varies for larger amounts. See the Attachment to OMB Circular A-128 for specific criteria.

2. Financial Audit Only

If a governmental unit is exempt from the requirements of a single audit, a fiscal opinion, individual grant or contract audit may satisfy the needs of the audit. Also, most states require both financial and compliance audits. Therefore, these audit requirements must be specified in the Request for Proposal, as follows:

A. Scope of Audit

An examination of and an auditor's report on the unit's financial statements or other fiscal documents in accordance with generally accepted auditing standards, other applicable audit guidelines, or the local government's specific audit requirements.

MANDATORY QUALIFICATION OF THE AUDITOR

The following information must be requested from all respondents:

1. An affirmation that the proposer is properly licensed for public practice as a certified public accountant or a public accountant. According to generally accepted governmental auditing standards (GAGAS), public accountants must be licensed on or before December 31, 1970 or working for a CPA firm to be eligible for engagement.
2. An affirmation that the proposer meets the independence requirements of the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, 1981 revision, published by the U.S. General Accounting Office.
3. An affirmation that the respondent does not have a record of substandard audit work. (This can be determined by communicating with the State licensing authority). Requesters of audit services may wish to ask respondents for disclosure of positive enforcement actions, or other matters which may reflect on their professional qualifications.
4. An affirmation that respondent meets any other specific qualification requirements imposed by state or local law. (Specifics should be detailed if applicable).

PERIOD OF THE AUDIT

The audit proposal should clearly state the period to be audited. This may be a one year period or longer. If the period to be audited is for a two year period, the requester should specify that the entire period since the last audit must be covered.

TERM OF THE ENGAGEMENT

As mentioned above, the term of the contract period covered in the RFP may be for a period different from the period to be audited. Request for Proposals may cover an extended period of time which would, of course, span a series of audit periods.

Requesters may wish to consider engaging the independent auditor for more than one annual audit, but also may wish to avoid extended engagements with the same auditor to assure auditor independence.

EXIT CONFERENCE REQUIREMENTS

The Request for Proposal should specify whether audit exit conferences are to be held and, if so, the contact person for setting up the meeting, where the meeting is to be held and the persons with whom to meet. Conferences are a matter of individual preference and may also include progress reporting and the frequency, and with whom and where.

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ASSISTANCE AVAILABLE TO PROPOSERS

1. Give the name of the auditor who made the most recent audit, the period covered, report date, and type of opinion. State whether previous audit working papers are available for inspection and where they are located. If the audit opinion was qualified, state whether the condition causing the qualification has been corrected.
2. State the names of the requester's staff available to assist the proposer by providing information and explanations.
 - a. State whether the accounting staff can prepare schedules, reproduce documents, pull documents, etc.
 - b. State whether any internal auditing time is available and whether internal audit reports are available.
 - c. State whether the data processing staff, equipment, and generalized user software are available for auditing purposes, and specify the make and model of the computer to be used and what type of operating system is used.
 - d. State whether legal counsel is available.
3. State the names and titles of officials who will issue representation letters for inventory evaluations, pledged assets, contingent liabilities, potential litigation, etc., if required.
4. State whether interfund and interdepartmental reconciliations have been made.
5. State the location of available work areas and equipment and its location in relation to the records.
6. Give the place, date, and time of the proposers' conference. (A proposers' conference is advisable for large audits to save the requester's time answering individual questions about the RFP and also to guarantee equal treatment to each proposer. Immediately following the proposers' conference, the proposers can be shown the accounting and other applicable records.)
7. State whether conference questions will be responded to in writing and whether the RFP will be amended if necessary.
8. Identify the cognizant Federal agency and the name and address of the contact person.

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REPORTS REQUIRED

The Request for Proposal should specify the reports that are required at the conclusion of the audit, and the reports which are required to be submitted on the audit, including special reports (or copies of reports) to Federal, state and other agencies. For example, the RFP must be tailored to fit the audit, however, if it encompasses a single audit the requester should cite the following minimum requirements:

1. The audit report shall state that the audit was made in accordance with the provisions of OMB Circular A-128.
2. The audit report shall include at least:
 - a. The auditors' opinion report on the financial statements and on a schedule of Federal assistance, showing the total expenditures for each Federal assistance program as identified in the Catalog of Federal Domestic Assistance, and all other Federal programs and grants which have not been assigned catalog numbers.
 - b. The auditor's report on the study and evaluation of internal control systems and it must identify the organization's significant internal accounting controls, and those controls designed to provide reasonable assurance that Federal programs are being managed in compliance with laws and regulations. This report must identify the controls which were not evaluated, and the material weaknesses identified as a result of the evaluation.
 - c. The auditor's report on compliance containing:
 1. A statement of positive assurance with respect to those items tested for compliance including compliance with laws, rules and regulations pertaining to non-major programs and other items which could have a material effect on financial reports and claims for advances and reimbursements. In addition, the auditor's report must disclose whether the organization has complied with laws and regulations that may have a material effect on each major federal assistance program.
 2. A statement of negative assurance on those items not tested.
 3. A summary of all (emphasis added) instances of noncompliance, and,
 4. An identification of total amounts of costs questioned, if any, for each Federal Assistance award as a result of noncompliance.

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5. Other statements or reports to satisfy state and local governments' requirements.

The three parts of the audit report may be bound together or presented as three separate reports, depending on the preference of the governmental entity requesting the audit. Separate management reports should be submitted with and attached as part of the above report or reports. Reports on fraud, abuse, or illegal acts or indication of such acts including all questioned costs found as the results of these acts should be covered by separate written report to the Federal department or agency.

TIME REQUIREMENTS

An important consideration to bear in mind is that the RFP procedure should be completed in time to permit the auditor to commence preliminary work prior to the close of the period to be audited. Ideally, the auditor selection and contract award should be completed prior to or as early as possible into the audit period.

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

1. Date of the proposer's conference.
2. Date and time for proposal submission. The preparation of audit proposals is an expensive, time consuming process for the proposer; therefore, a reasonable time must be allowed--at least three weeks to a month.
3. Date, time, and place for selected proposer interviews, if desirable.
4. Date of contract award.
5. Dates audit work can be commenced:
 - a. Preliminary work prior to closing accounts.
 - b. Postclosing work. (Some requesters may not want auditors working during closing.)
6. Date for preliminary report completion and exit conference.
7. Date for final report submission. The audit report normally should be submitted as soon as possible after the audit exit conference. Single audit reports are due within one year after end of the audit period unless extended by the cognizent agency.

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CONTRACTUAL ARRANGEMENTS

Provide general information about the contract to be awarded, including billing and payment arrangements, and contract cancellation provisions. Specify the period of the contract. Normally a multi-year contract offers advantages to both parties. Multi-year contracts may not be legal in some jurisdictions; however, problems might be overcome by including the option to cancel in any of the following years. If the contract will be limited to one year, state the requester's intent regarding its renewal, perhaps by issuing a letter of understanding.

REPORT REVIEW, TIMING, AND NUMBER OF COPIES

The RFP package should clearly cover all requirements concerning procedures of reporting, frequency, number of copies, special reporting, etc. as follows:

1. Exposure draft submission for review by the auditee. The name of the individual responsible for reviewing and responding to the draft audit report should be stated.
2. Exposure draft submission to the cognizant Inspector General or other designated offices for review. Clarify for the auditor the name and address, and timing for submission of the draft audit report for review by third parties.
3. Specify that instances of fraud, waste and illegal acts, or indications of such, including all questioned costs, must be covered by separate written report to the Federal department or agency which provided the Federal assistance funds.
4. Specify that management reports should be submitted as part of the audit report.

WORKING PAPERS

Audit working papers traditionally belong to the auditor, however, the RFP should:

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

RIGHT TO REJECT

The RFP should state that the requester reserves the right to reject any and all proposals submitted and to request additional information from all proposers. It should also state that any contract awarded will be made to the independent auditor who, based on evaluation of all responses, applying all criteria and oral interviews if necessary, is determined to be the best qualified to do the audit.

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CHAPTER III

EVALUATION OF PROPOSALS

METHODOLOGY

The method of evaluating proposals may vary considerably with the size and complexity of the government unit and the scope of services required. If the method of evaluation has been predetermined, which is highly recommended, it should be described in an attachment to, or made part of the RFP, giving a brief summary of how the selection process will work (See Appendix D). Clarifying the rating method, point range, and other factors would also be desirable.

To have a meaningful evaluation, care must be taken in selecting evaluators. The evaluators must have the background and experience necessary to make accurate and meaningful comparisons of the proposals, such as, general qualifications of the auditor; alternative approaches to the audit work plan; assessment of the number of hours to do the audit; and evaluating the staffing level and experience of assigned staff for the type and complexity of the audit desired. In addition, the evaluators should be provided appropriate criteria to ascertain which proposer best meets the requester's needs. Occasionally, several proposals may be so similar in qualifications that oral interviews may have to be arranged and scheduled to assist in making the final selection. This procedure may be handled following the formal evaluation and rating of the proposals.

The following factors should be considered when making an evaluation of the proposals:

TECHNICAL FACTORS

1. Responsiveness of the proposal in clearly stating an understanding of the audit services to be performed. The evaluators should consider:
 - * Appropriateness and adequacy of proposed procedures
 - * Necessity of procedures
 - * Reasonableness of time estimates
 - * Appropriateness of assigned staff levels
 - * Timeliness of expected completion
2. Technical experience of the firm
3. Qualifications of staff
4. Size and structure of firm, considering the scope of the audit

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Note: If other audit firms are to be used (for example, to audit sub-recipients) the above technical factors should be applied also to those audit firms.

It is strongly recommended that proposals be ranked according to the technical factors first, and then consider the proposed cost. For example, the evaluation process may rank the proposals only on technical factors, then a selection of the best qualified proposals could be made of perhaps three to five from the total responses. From these "best qualified" responses, the evaluation could proceed with evaluations of the cost factors.

COST FACTORS

Cost of work to be performed is important and often is a significant factor in selection of the proposal for entering into a contract for services. Cost should not be given primary and dominant weighting in selecting the auditor. Cost for the audit should be given consideration - more or less - when all other evaluation criteria have been met and the proposals are relatively equal in qualifications.

If there is reason to believe that an unreasonably low proposal has been submitted, it should be rejected. One method of measuring reasonableness is to compare hours to complete the audit (you may wish to compare hours by segment of the audit), divide cost estimate by these hours, and compare with other proposals. It may be helpful to develop a general standard as to hourly rates and time on each audit task regarding what might be expected.

This chapter outlines general information on the process for evaluation of proposals. Detailed procedures and a suggested worksheet for handling the evaluation process are shown in Appendix D of these guidelines which may be helpful.

SELECTED BIBLIOGRAPHY

LAWS

Federal	Single Audit Act of 1984 (PL 98-502)
State	Education Code Health and Safety Code

RULES AND REGULATIONS

OMB

Circular A-128, "Audit of State and Local Governments"
Compliance Supplement for Single Audits of State and Local Governments
(Revised April 1985)
Circular A-102, "Uniform Administrative Requirements for Grants-in-Aid to
State and Local Governments"
Catalog of Federal Domestic Assistance
Circular A-87, "Cost Principles Applicable to Grants and Contracts with
State and Local Governments"
Circular A-73, "Audits of Federal Grants-in-Aid to State and Local
Governments"
Circular A-88, "Higher Education Audits and Indirect Costs"
Circular A-110, "Grants and Agreements with Institutions of Higher
Education, Hospitals and Other Nonprofit Organizations"
Circular A-21, "Cost Principles for Educational Institutions"

These documents may be obtained from the Superintendent of Documents, U.S.
Government Printing Office, Washington, D.C. 20402.

OTHER

45 CFR Part 74 Audits under Single Audit Act (HHS)
31 CFR Part 51 Audits under Single Audit Act (ORS)
29 CFR Part 96 Audits under Single Audit Act (DOL)
49 CFR Part 90 Audits under Single Audit Act (DOT)

AUDIT GUIDELINES

AICPA

Statements on Auditing Standards

Audits of State and Local Government Units
(Combines audit guide with Single Audit) (Available 1986)

These documents may be obtained from the American Institute of Certified
Public Accountants, 1211 Avenue of the Americas, New York, New York 10036.

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SELECTED BIBLIOGRAPHY

GAO

Standards for Audit of Governmental Organizations, Programs, Activities,
and Functions - 1981 Revision

Standards for Internal Controls in the Federal Government

These documents may be obtained from the Superintendent of Documents, U.S.
Government Printing Office, Washington, D.C. 20402

OMB

Guidelines for Audit Agreements with Educational Institutions (to be
issued)

OTHER REFERENCES

* League of California Cities - Suggested Contents for City Audit Contract

* Mid America Intergovernmental Forum - Desk Review Guide for Single Audit
Reports (This publication provides auditors who prepare "single audit"
reports and who review them useful guidance in the quality assurance area.)

This document may be obtained from the Mid-America Intergovernmental Audit
Forum, Suite 300 Levee House, 800 North Third Street, St. Louis, Missouri
63102

* Governmental Accounting Standards Board

Codification of Governmental Accounting and Financial Reporting
Standards.

Statements

Interpretations

Technical Bulletins

These documents may be obtained from the Governmental Accounting Standards
Board, High Ridge Park, P. O. Box 3821, Stamford, Connecticut 06905.

* Joint Financial Management Improvement Program - Cognizant Audit Agency
Guidelines

This document may be obtained from the Joint Financial Management
Improvement Program, Suite 705, 666 Eleventh Street, N.W., Washington,
D.C. 20001.

DEFINITIONS

For the purposes of this booklet the following definitions from the Single Audit Act apply:

Cognizant agency -- The Federal agency assigned by the Office of Management and Budget to carry out the responsibilities described in paragraph 12 of Circular A-128.

Federal financial assistance -- Assistance provided by a Federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations, but does not include direct federal cash assistance to individuals. It includes awards received directly from Federal agencies, or indirectly through other units of State and local governments.

Federal agency -- Same meaning as the term "agency" in section 551(1) of Title 5, United States Code.

Generally accepted accounting principles -- The meaning as specified in the generally accepted government auditing standards.

Generally accepted government auditing standards -- The Standard for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the Comptroller General on February 27, 1981.

Independent auditor means:

1. An external State or local government auditor who meets the independence standards specified in generally accepted government auditing standards; or
2. A public accountant who meets such independence standards.

Internal controls (administrative controls) -- Includes but is not limited to the plan of organization and the procedures and records that are concerned with the decision process leading to management's authorization of transactions.

Internal controls (accounting controls) -- The plan of organization and methods and procedures adopted by management to ensure that:

1. Resource use is consistent with laws, regulations, and policies;
2. Resources are safeguarded against waste, loss, and misuse; and
3. Reliable data are obtained, maintained and fairly disclosed in reports.

DEFINITIONS (CONTINUED)

Indian tribe -- Any Indian tribe, band, nations or other organized group or community, including any Alaskan Native village or regional or village corporations (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.

Local government -- Any unit of local government within a State, including a county, a borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, and any other instrumentality of local government.

Major Federal assistance program -- As defined by P. L. 98-502, and presented in Attachment A to Circular A-128.

Public accountants -- Those individuals who meet the qualification standards included in generally accepted government auditing standards for personnel performing government audits.

State -- Any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands, any instrumentality thereof, and any multi-State, regional, or interstate entity that has governmental functions and any Indian tribe.

Subrecipient -- Any person or government department, agency, or establishment that receives Federal financial assistance to carry out a program through a State or local government, but does not include an individual that is a beneficiary of such a program.

FORMAT OF THE RFP RESPONSE

To simplify and expedite the review process and obtain the maximum degree of information from respondents for evaluation purposes, requesters of audit services should require that the proposals be organized in the manner as specified in the RFP. These items are covered in detail in Chapter II of this guideline. The following outline suggests how a comprehensive proposal may be organized to include all the information called for in the RFP. It is suggested that the RFP package contain such a formatted guide for guidance of the respondents.

TITLE PAGE

The response should identify the RFP subject, proposal numbers, if any, the name of the independent auditor, local address, telephone number, name and title of contact person, and date of submission. The period which the proposal is effective (nonrescindable) should also be requested.

TABLE OF CONTENTS

The table of contents of the proposal should include a clear and complete identification of the materials submitted by section and page number. It may be necessary to require that the table of contents show a cross reference to the specific section and/or page number in the RFP.

LETTER OF TRANSMITTAL

The letter of transmittal is normally of one or two pages and is usually tailored to fit individual preferences. It is summary or introductory in nature, but the requester may stipulate that it contain the following information:

1. A brief understanding of the audit service to be performed.
2. A positive commitment to perform the service within the time period specified.
3. The names of persons authorized to represent the respondent, their title, address and telephone number. This may be important if different from the individual who signs the transmittal letter.
4. Reference to a sealed envelope that contains the all-inclusive fee for which the audit work will be done. This RFP instructional item of information should also specify that the fee amount should not be divulged elsewhere in the proposal but should reference the sealed envelope.

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PROFILE OF THE INDEPENDENT AUDITOR

The profile of the respondents should be requested for general background information.

This should include:

1. The organization and size of the respondent, whether it is local, regional, national or international in operations.
2. The location of the office from which the work is to be done and the number of professional staff by staff level employed at that office.
3. A description of the range of activities performed by the local office such as auditing, accounting, tax service, or management services.
4. A statement on the respondent's staff capability to audit computerized systems, including the number and classifications of personnel skilled in computer sciences who will work on the audit, if required to.
5. A positive statement that the following mandatory criteria are satisfied:
 - (a) An affirmation that the proposer is properly licensed for practice as a certified public accountant or a public accountant. According to generally accepted governmental auditing standards (GAGAS), public accountants must be licensed on or before December 30, 1970 or working for a CPA firm to be eligible for engagement.
 - (b) An affirmation that the proposer meets the independence requirements of the Standards For Audit Of Governmental Organizations, Programs, Activities And Functions 1981 revision, published by the U. S. General Accounting Office.
 - (c) An affirmation that the respondent does not have a record of substandard audit work.
 - (d) An affirmation that respondent meets all specific requirements imposed by state or local law or rules and regulations.

The requester of auditing services should also consider asking for an affirmation from the respondents concerning the American Institute of Certified Public Accountants' 'Interpretation 501-3, Failure to Follow Standards and/or Procedures or other Requirements in Governmental Audits.' Basically, if a member (of AICPA) accepts such an engagement and undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards, the auditor is obligated to follow such requirements. The auditor must disclose in the audit report the fact that such requirements were not followed and the reasons therefore. Assurances that the successful respondent understands these professional requirements, whether or not the auditor is a member of AICPA, should be helpful.

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SUMMARY OF THE PROPOSER'S QUALIFICATIONS

1. Identify the audit managers and field supervisors and other staff who will work on the audit, including staff from other than the local office. Resumes including relevant experience and continuing education for auditor in charge up to the individual with final responsibility for the engagement should be included. (The resumes may be included as an appendix.)
2. Describe the recent local and regional office auditing experience similar to the type of audit requested, and give the names and telephone numbers of client officials responsible for three of the audits listed. Note: Since it is time-consuming to obtain permission to use people as references, references should not be requested unless they will be used.
3. If other auditors are to participate in the audit, those auditors should be required to provide similar information.

PROPOSER'S APPROACH TO THE EXAMINATION

Submit a work plan to accomplish the scope defined in Chapter II of these guidelines. The work plan should include time estimates for each significant segment of the work and the staff level to be assigned. Where possible, individual staff members should be named and their titles provided. The planned use of specialists should be specified.

For example, if the scope of the audit is a single audit of the requester, the audit work plan should completely cover what audit work will be accomplished to allow the auditor to render:

- a. An opinion report on the financial statements.
- b. A report on the study and evaluation and report on internal control systems.
- c. Reporting on the organization's control system to assure compliance and whether the organization has complied with laws and regulations that may have an effect on each major federal assistance program.

The audit work plan should demonstrate the auditor's understanding of the audit requirements of a single audit as specified in OMB Circular A-128 and the audit tests and procedures to be applied in completing the audit plan.

For a financial opinion audit, or financial and compliance audits other than a single audit, the instructions should be tailored to cover the audit work related to the scope of the financial statement audit. If other audit guidelines or regulations are applicable, the audit work plan should satisfy those audit requirements.

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REPORT REQUIREMENTS

The instructions should request information from the respondents concerning their understanding of and their ability to meet specific reporting requirements, including the type and number of reports and any special reporting requirements. Also, the instructions should clarify whether copies of reports are to be sent to other departments or agencies. This instruction could cite the specific reporting requirements of OMB Circular A-128, Section 13. Copies of specimen audit reports and management letters may be requested, if considered necessary.

TIME REQUIREMENTS

If not already adequately covered in the respondents' letter of transmittal, the response should detail information on how the respondents plan to meet the timeline and reporting deadline requirements of the engagement.

COMPENSATION

The instruction to the proposers should clarify that information submitted related to the cost of services being offered should be submitted in a sealed envelope separate from but together with the proposal.

ADDITIONAL DATA

The response normally should address the specifics concerning the audit services being requested and the professional qualifications of the respondents. The instructions to the respondents should clarify what additional information, if any, may be submitted and how it should be arranged and referenced. This data may be helpful, however, reasonable parameters seem appropriate to eliminate non-essential information from the proposals.

EVALUATION WORKSHEET

This evaluation worksheet is intended to provide assistance and guidance on a satisfactory evaluation and selection of the best qualified independent auditor to perform the audit requirements specified in the RFP. It is incumbent on the requesters not only to clearly state their audit requirements but also select the best qualified respondent, all factors considered, to do the audit.

EXAMPLE OF A PROPOSAL EVALUATION METHOD

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

SUGGESTED FORMULA

The following formula may be used to establish a process for evaluating the proposals and making the final selection of the best qualified independent auditor to perform the audit.

The total score of each proposal should be determined by adding the points awarded for technical qualifications (maximum of 75 points) to the points received for the cost of doing the audit (maximum of 25 points).

The total score should be determined by applying the following formula:

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

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

Subtotal _____

Oral Interview (if necessary)

Points from 1 to 10 - Score _____

Total Points _____

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In the event that oral interviews are necessary to break a tie or for making final clarification in the evaluation process, additional points may be awarded on any reasonable scale, but from 1-10 would be appropriate. It should be understood that while the total score is a significant factor, the requester of the services reserves the right to consider other factors in making the final selection. Although this is true, requesters should be very careful in the evaluation process to formulate a defensible evaluation plan, document the procedures used and points awarded on each proposal, and retain the material for a reasonable time in the event of a protest or questions raised on the scoring, contract award, etc.

PROFESSIONAL QUALIFICATIONS

The evaluation of professional qualifications of the proposals should be based on the following criteria:

1. Mandatory Criteria

Proposals should not be considered for further evaluation unless they meet all of the following mandatory criteria:

- a. Must be an independent auditor properly licensed for public practice.
- b. Must meet the independence standards of the GAO Standards for Audit of Governmental Organizations, Programs, Activities and Functions 1981 revision, published by the U. S. General Accounting Office.
- c. Must not have a record of substandard work. This can be determined by checking with the State licensing authority, if available, or by requesting information on positive enforcement, ethics infractions, or references from the respondents.
- d. Must meet any specific qualifications requirements imposed by state or local law or rules and regulations.

2. Technical Criteria

Point
Range

Those proposers who have met each of the criteria in section 1 above will be evaluated on the following criteria:

- 1. Responsiveness of the proposal in clearly stating an understanding of the work to be performed. (0-25)
 - a. Comprehensiveness of audit work plan 0-15
 - b. Realistic time estimates of each major segment of the work plan and the estimated number of hours for each staff level including consultants assigned. 0-10

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- 2. Technical experience of the firm. (0-20)
 - a. Auditing of the type under consideration. 0-15
 - b. Auditing similar entities. 0- 5
- 3. Qualifications of staff, including consultants, to be assigned to the audit. Education, including continuing education courses taken during the past three years, position in the firm, and years and types of experience will be considered. This will be determined from the resumes submitted. (0-25)
 - a. Qualifications of supervisory personnel, consultants, and of the audit team doing field work 0-15
 - b. General direction and supervision to be exercised over the audit team by the firm's management personnel. 0-10
- 4. Size and structure of the firm 0-5
- Total technical points 0-75

3. Cost Criteria

The envelopes containing information on the cost of the audit should now be opened and scheduled by each proposal and amount. The information should be arrayed from low to high cost estimates for applying the formula and computing the cost criteria score and recording on the evaluation summary sheet, or similar record.

- Cost of the audit 0-25
- _____
- Technical and cost - Maximum points 100

4. Oral Interviews (if necessary)

The requester should develop a list of criteria or special factors which may be used in the oral interviews. The factors should seek to clarify points of interest on the proposers qualifications to do the audit. The oral interviews may bring out additional information to clearly make the final determinations.

- Interview points awarded 1-10
- _____
- Total Points XXX

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FINAL SELECTION DETERMINATION

After the proposals have been reviewed and ranked based on the mandatory and technical criteria, a natural cut off point in the evaluation process may become apparent. For example, those proposals which did not meet the mandatory criteria have been eliminated and the low ranked proposals may now be eliminated as not being competitive or qualified. The evaluation process may now elect to choose the top 3 to 5 proposals for the final phase of the review.

The next step is to proceed to the cost criteria. The finalists should be rated using the cost criteria formula and the points recorded for determining the best qualified proposals. If final scores are tied or very close, making selection difficult, the oral interview procedure may be necessary and appropriate for making the final selection of the independent auditor to do the audit.

