



July 6, 2017

Mr. James R. Dalkin
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

Subject: Financial Management and Assurance; Government Auditing Standards. Comments on the April 5, 2017 "Yellow Book" exposure draft revisions.

Dear Mr. Dalkin,

The Aerospace Industries Association (AIA) appreciates the opportunity to share with the U.S. Government Accountability Office our comments regarding the subject exposure draft.

AIA represents over 350 of the nation's major manufacturers of commercial, military and business products such as aircraft, helicopters, aircraft engines, missiles, spacecraft and related components and equipment. Our membership are significant contributors to the United States Government acquisition markets at both the Federal and State level. Accordingly, they are subject to oversight activities and audits performed under Generally Accepted Government Auditing Standards (GAGAS). Modifications to the "Yellow Book" can have a significant impact on operations and costs to support oversight activities within our membership.

A concern that we have with the revised exposure draft is the introduction of the concept of auditing specifically for the word "waste".

"Fraud, Waste and Abuse" is a politically charged term that is often seen in the press, or used as a punchline, to characterize alleged mismanagement in Government programs and entities. Previous versions of the Yellow Book have references to both "Fraud" and "Abuse," absent is any reference to the term "Waste" (outside of a reference on reporting "Fraud, Waste and Abuse" to the GAO hotline).

The determination of "waste" is a subjective measure, as is recognized for "abuse" in the current definition of that term in GAGAS. The current language defining abuse is as follows:

"6.33 Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements.

Mr. James R. Dalkin
July 6, 2017
Page 2 of 4

6.34 Because the determination of abuse is subjective, auditors are not required to detect abuse in performance audits. However, as part of a GAGAS audit, if auditors become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.”

This definition establishes boundaries for the subjective measure of abuse tying it to “behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.”

This reference is very similar to the definition of reasonableness that can be found within the Federal Acquisition Regulations (FAR), found at FAR 31.201-3(a) which states (*emphasis added*):

“(a) A cost is reasonable if, *in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business...*”

Furthermore, as noted in the current language for abuse, given the subjective nature of this condition, auditors are not required to perform procedures to uncover instances of abuse in their audits. Rather if they become aware of abuse they are instructed to determine the effect of that condition within the context of their audit objective.

The exposure draft defines waste as:

6.17 Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Waste involves the taxpayers not receiving reasonable value for money in connection with any government-funded activities because of an inappropriate act or omission by parties with control over or access to government resources. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.

Absent from this definition is a recognition of the subjective nature of the determination of waste. Furthermore, this definition does not work in harmony with the current definition of Reasonableness found in the FAR.

The method within the acquisition community and the current regulatory construct to address “waste” is codified with a determination of reasonableness as noted at FAR 31.201-3. If a cost is deemed unreasonable under the FAR it is in effect an identification of waste under current norms and contract terms.

Mr. James R. Dalkin
July 6, 2017
Page 3 of 4

In Government contracting “reasonableness” is determined within the context of the competitive markets and the actions of a prudent business person. What is acceptable and reasonable within the private sector is very different from what “...involves the taxpayers not receiving reasonable value for money in connection with any government-funded activities because of an inappropriate act or omission by parties with control over or access to government resources.”

Disputes of contract terms and indirect costs may result from Government audit findings of “Waste” under the proposed GAGAS definition versus the contract terms of “reasonableness” under the FAR. Often Government auditors will view a contractor’s discretionary expenditures that are allocated to cost type Government contractors as a cost to “the taxpayer.” This is a view that is not shared by industry.

This proposed definition creates ambiguity on whether normal human error could be considered waste. In all organizations, the initial implementation of procedures may have what could be considered waste due to lack of knowledge or newness. After working a process, you begin to more fully understand requirements and therefore, can determine where improvements can be made. The proposed definition applies no consideration as to at what point something is considered waste versus simply part of developing a process or error since it states “waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.” The proposed language implies perfection.

Furthermore, the exposure draft does not exempt auditors from the requirement to perform specific procedures to identify waste as is done currently with abuse.

Under current GAGAS standards and its practical application we do not perceive a problem with the identification of “waste” or “unreasonable” activity in the conduct of Yellow Book / GAGAS audits. However, the introduction of the politically charged term “waste” into the audit standards with the attendant definitions and audit requirements may result in a cascade of unintended consequences to implement the revision.

Issues such as having a cadre of auditors that are considered subject matter experts, establishing training and competency standards for the identification of waste (i.e. today there are certified fraud examiners, will there now be a need for certified waste examiners?) will all need to be addressed.

Accordingly, the AIA recommends not including the concept of “Waste” in the auditing standards, but rather to continue to operate under the current auditing construct. There is not a problem here that needs to be fixed. Alternatively, if the GAO should not agree with our recommendation, we would suggest the definition of waste be harmonized with the FAR definition of “reasonableness” and the language used to describe the examination or finding of “Abuse” (not requiring procedures) as previously stated in the GAGAS be adopted in your revision for the new concept of “Waste.”

Beyond the modifications that are included in the exposure draft, we recommend adoption of the AICPA Standards for Attestation Engagements pertaining to Criteria. Our members have noted an inconsistency by Federal auditors (DCAA) of determining what valid criteria used for evaluation represents. It is unreasonable to expect contractors or the subject of any audit, to perform against criteria that have been developed and not publicly shared prior to the audit activity. The AICPA definitions of criteria are easy to follow and establish requirements that are reasonable. The adoption of these definitions of criteria could

Mr. James R. Dalkin
July 6, 2017
Page 4 of 4

assist in eliminating some of the "wasted" activity that occurs between the auditor and auditee. It would require more factual data, known requirements, and remove some subjectivity.

Thank you very much for your consideration of our comments. Should you have questions or wish to discuss this matter further please feel free to contact me at your convenience at phone number [REDACTED]
[REDACTED]

Sincerely,

A handwritten signature in black ink, appearing to read "Ronald J. Youngs", written in a cursive style.

Ronald J. Youngs
Assistant Vice President, Acquisition Policy
Aerospace Industries Association