

**Requirements from VCM's policies for requesting an audit of the contractor:**

**Effective August 2011**

VCM's Acquisition Policy and Procedure Manual, Chapter 15.17, Contract Audit Support states: "The Contracting Officer shall request assistance from Management Audit Services when the information available at the buying activity is inadequate to determine a fair and reasonable price." It is important for VCM to enact policies, procedures, and practices that are prudent to ensure compliance. Therefore, the conditions for an audit engagement are aligned with the type of procurement or buying activity as noted below. It should also be noted that the conditions outlined include steps that VCM has taken to improve the process by providing some latitude to the Contracting Officer through raising some limits for when an audit is performed, and that allows for the use of information gathered in a previously performed audit as applicable. More recent updates are also noted below by a memorandum dated April 27, 2017 that target improvements to Forward Price Contracts changes/modifications, incurred costs changes/modifications, disputes, and additional guidance regarding the use of preexisting audit information. These updates are noted under separate heading.

**Conditions for Audit:**

1. All **cost reimbursement type proposals** and for **all Architect and Engineer consultant contracts** funded by or through Caltrans valued \$1,000,000 or more. If not funded by or through Caltrans, the audit threshold is \$750,000. The contracting officer shall not request a separate audit of indirect costs unless the information already available from an existing audit, completed within the preceding 12 months, is considered inadequate for determining the reasonableness of the proposed indirect cost.
2. **Terminations** - Termination settlements greater than \$700,000 are subject to audit.
3. **Audit of Contract Payments** - At the discretion of the Contracting Officer, audits may be requested to determine the following:
  - Whether the contract payments are fairly supported by the value of work accomplished;
  - Whether the unpaid balance of the contract price will be adequate to cover the anticipated cost of completion, or the contractor has adequate resources to complete the contract; and
  - Whether there is any reason to doubt the adequacy or reliability of the contractor's accounting system, controls, or payment certification.

**April 27, 2017 Update:**

1. Forward priced contract changes/modifications of any amount do not require an audit, unless the Contracting Officer/Contract Administrator determines they are unable to perform and documents in the file an adequate cost analysis of the proposed costs.
2. Contract changes/modifications based on actual incurred cost in whole or in part, greater than \$750,000 only require an audit when the Contracting Officer/Contract Administrator is unable to validate such incurred costs or the cost proposal is of such complexity an adequate cost analysis cannot be performed and documented in the file.
3. When the parties are considering resolution of dispute or disputes, with a settlement agreement for incurred costs greater than \$500,000 the Contracting Officer/Contract Administrator will request an audit to substantiate each part of the amount before

settlement, unless an analysis is able to validate a substantial portion of each part and is accepted by the Contracting Officer/Contracting Administrator.

4. In all instances the Contracting Officer/Contract Administrator should not request a new audit effort if and when an existing audit by a cognizant audit agency, including Metro's Management Audit Services, or certified public account performed within the prior 12 months, is available to document, validate or substantiate the costs involved in accordance with FAR Part 31.