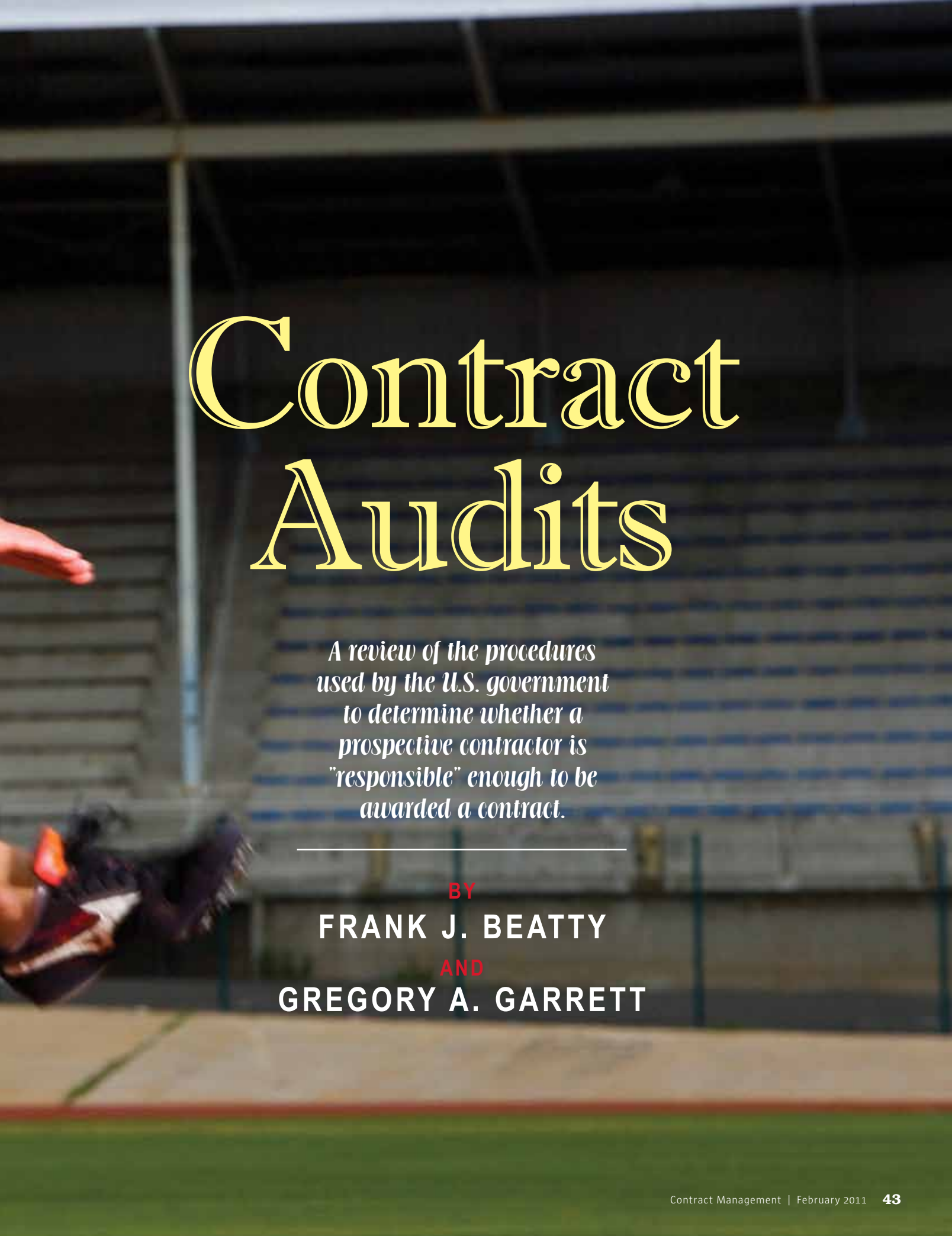


A male athlete in a blue and white uniform is captured in mid-air, jumping over a hurdle on a track. The athlete's body is angled forward, with his right leg bent and tucked under him, and his left leg extended forward. His arms are outstretched, and his head is looking down. The hurdle is white with black stripes and is supported by red posts. The background shows a blurred track and stadium seating.

Pre-Award



Contract Audits

*A review of the procedures
used by the U.S. government
to determine whether a
prospective contractor is
"responsible" enough to be
awarded a contract.*

BY
FRANK J. BEATTY
AND
GREGORY A. GARRETT

A prospective U.S. federal government contractor has a number of significant hurdles to overcome prior to being awarded its first contract. Contracting officers within government agencies are required to conduct their business with responsible contractors. Part 9 of the Federal Acquisition Regulation (FAR) contains a number of significant requirements that government procurement officials are to follow. This article will provide a brief look into those pre-award requirements.

Responsible Contractors

FAR 9.1, "Responsible Prospective Contractors," describes the procedures to be followed by the government in making determinations as to whether a prospective contractor and its subcontractors are deemed to be "responsible." Contracting officials are instructed that no purchase or award shall be made unless the contracting officer makes an affirmative determination of responsibility.¹

A prospective contractor must affirmatively demonstrate to the government that it is a responsible contractor. In order to be deemed "responsible," FAR 9.104-1 requires that the contractor possess the following attributes:

- Adequate financial resources to perform the contract, or possess the ability to obtain them;
- Ability to comply with the proposed delivery and/or performance schedules, taking into consideration its existing commercial and government business commitments;
- Have a satisfactory performance record;
- Have a satisfactory record of integrity and business ethics;
- Have the necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them (these skills and controls include such elements as production control procedures, property control systems, quality assurance measures, and safety programs applicable to materials to be produced or services to be performed by the prospective contractor and subcontractor);

- Have the necessary production, construction, and technical equipment and facilities, or the ability to obtain them; and
- Be otherwise qualified and eligible to receive an award under applicable laws and regulations.

Of the attributes above, the two attributes of note are 1) the ability to obtain resources and 2) having a satisfactory performance record. Acceptable evidence of adequate financial resources consists of a commitment or explicit arrangements to rent, purchase, or otherwise acquire the needed facilities, equipment, and personnel for the contract. A contractor that is or recently has been deficient in contract performance shall be presumed to be "non-responsible" unless the contracting officer determines that the circumstances were beyond the contractor's control, or that the contractor has taken proper corrective actions. The failure to meet the quality requirements in a current or previous contract weighs heavily in determining satisfactory performance.²

Pre-Award Surveys

The Defense Contract Management Agency (DCMA) performs the pre-award surveys that are required by various buying activities, including the Defense Logistics Agency, the various branches of the military services, the National Aeronautics and Space Administration (NASA), and other executive agencies on a reimbursable basis. The process begins with a buying activity's request for a pre-award survey and concludes with a procuring contracting officer's decision based on a recommendation by a DCMA contract management office survey team.

The process includes five basic steps:

- 1 | The buying activity requests a pre-award survey by completing a Standard Form (SF) 1403. This form contains pertinent information about the contract being awarded. The form also informs the survey team about the areas of interest which require evaluation before the buying activity can award the contract.
- 2 | The task of evaluation is assigned to a DCMA office, which utilizes a team to perform the survey. For pre-award accounting system surveys, the cognizant Defense Contract Audit Agency (DCAA) office is contacted.
- 3 | The leader of the survey team schedules the pre-award survey by contact-

ing the prospective contractor. At the agreed-upon time, the team conducts the survey.

- 4 | Upon completion of the survey, the team submits to the buying activity a written report that recommends whether to make award or to withhold award.
- 5 | The buying activity's procuring contracting officer makes the award decision and notifies the contractor.

What the Survey Team is Looking For

The pre-award survey can focus on virtually every facet of the contractor's operations—from its technical capabili-

ties to financial stability; from quality assurance to plant safety. In a sense, the survey process is the contractor's opportunity to provide evidence that it can successfully fulfill the terms of the contract. If a contractor does not have the facilities, personnel, or equipment in place (as a new contractor or for a new award/program), the contractor should have the chance to demonstrate that such shortcomings will be mitigated/corrected in time to meet all of the contract requirements.

Getting Ready for the Pre-Award Survey

Prior to the DCMA or DCAA survey team's arrival, the relevant contractor personnel

Membership 101

How do I get involved with NCMA?

Volunteer! Assist at the state or national level.

To find out more, e-mail memberservices@ncmahq.org and put "NCMA Volunteer" in the subject line.

Members
Only

As a member of NCMA, you have the right to vote in the national election. Visit www.contract.org/elections to review the candidates for election to the NCMA Board of Directors.



should ask themselves the following questions in preparation for the visit(s)³:

- Have you chosen a management official to speak for the company?
 - Is that management official totally familiar with the company's proposal as well as the terms and conditions of the solicitation?
 - Are there disparities between the submitted proposal and the government's request for proposals that need to be resolved?
 - Can you actually demonstrate the company's technical capability or the development of such a capability to generate the contracted product or services?
 - Is your company's production plan adequate to meet contract schedule? Is the plan available for review by the survey team?
 - Are your plant facilities and equipment available and operable? If not, can you prove that the facilities can be developed and the equipment acquired in time to meet the contract requirements?
 - Is your company ready to meet the contract's transportation requirements?
 - Can your company meet the contract's packaging, packing, and preservation requirements?
 - Do company employees have up-to-date security clearances, and are they cleared for the proper level of secrecy?
 - Has the company hired enough properly skilled personnel? If not, can they be hired quickly?
 - Can the company demonstrate that on previous government or commercial contracts there was a satisfactory record of on-time deliveries of quality products or services?
 - Have you made plans to escort the survey team through your facility? Are technical experts available to answer questions from the team?
 - Have you gathered the appropriate financial documents (e.g., a profit and loss summary, a balance sheet, a cash flow statement for the auditors, etc.)?
 - Do you have a list of on-hand tools and equipment?
 - Have you made verifiable plans to obtain vendor supplies and materials or for engaging subcontractors? Do you have a follow-up system to ensure that your company can meet the delivery schedule if a vendor has problems?
 - Do you understand all the requirements for technical data and publications?
 - Do you have an operating accounting system that DCAA could review?
 - Do you have policies and procedures related to the accounting system if you have requested progress payments as a part of the award?
 - Does your company have an active quality assurance system? Are your quality specialists familiar with the proposal's quality requirements?
 - If the government is furnishing equipment, property, or material, does the contractor have procedures to comply with the FAR property requirements?
- Remember that the pre-award survey process is the contractor's opportunity to provide evidence that it can successfully fulfill the terms of the solicitation/contract. A pre-award survey is normally required only when the information on hand within the government buying activity, or readily available to the contracting officer, is not sufficient to make a responsibility determination. Contracts that are fixed-price at or below the acquisition threshold or involve the purchase of commercial items should

not be considered for a pre-award survey. Regardless of the type of contract expected, however, the contracting activity should ascertain whether the proposed contractor is debarred, suspended, or otherwise ineligible for an award.⁴

Types of Pre-Award Surveys

There are six types of pre-award surveys.⁵ Each survey type has its own unique requirements and specific SF to be completed. The types are as follows:

- SF-1403: "Pre-Award Survey of Prospective Contractor (General)."
- SF-1404: "Pre-Award Survey of Prospective Contractor—Technical."
- SF-1405: "Pre-Award Survey of Prospective Contractor—Production."
- SF-1406: "Pre-Award Survey of Prospective Contractor—Quality Assurance."
- SF-1407: "Pre-Award Survey of Prospective Contractor—Financial Capability."
- SF-1408: "Pre-Award Survey of Prospective Contractor—Accounting System."

SF-1403: "Pre-Award Survey of Prospective Contractor (General)"

Prior to the award of a contract, the government attempts to ensure that prospective contractors have the capability to fulfill the requirements of the contract. A contractor who desires a contract shall be a "responsible contractor" in the judgment of the buying activity. If the buying activity has sufficient information on the offeror, then it can make a determination of responsibility based on the facts on hand. If there are doubts about the offeror's ability to perform, as would be the case for a new contractor, for example, the buying activity may request an evaluation of the offeror. The pre-award survey (SF-1403) is a method by which an offeror's capabilities are evaluated. The pre-award survey is a formalized procedure initiated at the

request of a buying activity that desires to enter into a procurement contract. FAR 9.1, "Responsible Prospective Contractors," establishes the requirements governing contractor qualifications and responsibility determinations.

The SF-1403 form⁶ is a summary document containing four sections:

- Section I provides for pertinent information related to the offeror and the survey team members for the requested survey(s) being requested;
- Section II contains a synopsis of items being procured (parts/assemblies/services), their unit prices, and the proposed delivery schedule;
- Section III details the factors to be investigated by the various pre-award survey teams, such as the offeror's technical capability, financial capability, or a pre-award accounting system review;
- Section IV contains the summary of the surveys conducted as well as a recommendation for a "complete" award, "partial" award, or a recommendation of "no award" by the survey approving official.

SF-1404: "Pre-Award Survey of Prospective Contractor—Technical"

The pre-award technical survey (SF-1404) is performed to capture data regarding whether the contractor understands the technical aspects of the proposed effort. The government reviewers make an assessment of the contractor's plan of performance as it relates to key management and technical personnel to determine if they have the basic knowledge, experience, and understanding of the requirements necessary to produce the required products or provide the required services. Adequate technical and/or management resources must be available during the period of performance in the event of an award. This factor will be rated as either "satisfactory" or "unsatisfactory."

The government is not obligated to prove that the contractor can or cannot perform. The offeror must demonstrate its capabilities to perform in accordance with the terms and conditions of the proposed contract. The government technical specialist should be aware of any peculiar technical requirements that require specialized skills, training, or education.

On-Site Review

While conducting the survey, the following are examples of factors that the government reviewer should consider:

- Does the offeror understand the requirements of the solicitation contained within the technical data package (i.e., specifications, drawings, software, and contract data items)?
- Does the offeror have the necessary technical/management personnel onboard? If not, can the offeror reasonably obtain additional personnel (e.g., new hires or consultants)?
- Does the offeror have the technical knowledge in specialized areas such as special tooling, test equipment, or software development? Has the contractor kept current with new technology?
- Does the offeror have background information available on its key personnel, such as their experience, education, and other qualifications which reflect their potential for successfully performing the proposed contract?

Post-Review Assessment

After conducting the survey and making the necessary inquiries, the government reviewer will analyze the information provided by the contractor to determine if the contractor has the capability to comply with the technical requirements of the proposed contract. The absence of any particular facet of the technical requirements is not necessarily cause for a negative determination. If the prospective contractor has demonstrated the ability to acquire the

necessary technical expertise, a positive determination should be made.

Included with the results of the review would be a recommendation for an award, partial award, or no award regarding the prospective contractor's technical capability.

SF-1405: "Pre-Award Survey of Prospective Contractor—Production"

The pre-award production survey (SF-1405) is conducted by the government reviewer as an assessment of the offeror's ability to plan, control, and integrate manpower, facilities, and other resources necessary for successful contract completion. The review includes making an assessment and reporting on the following areas:

- **Evaluation of the production plan of performance**—The evaluation of the production plan will be rated as either "satisfactory" or "unsatisfactory." The production plan of performance should identify, at a minimum, what the offeror plans to accomplish in-house and what, if anything, is planned to be subcontracted out; who the proposed subcontractors are; when the subcontracted-out processes should be started and completed; where and who should conduct any of the contractually-required tests; who will produce the contract data requirements list items; and what group will assemble, test, package, and ship the procured items.
- **Management and control**—The government reviewer will make an assessment of the prospective contractor's ability to plan, control, and integrate manpower, facilities, and other resources necessary for successful contract completion.
- **Plant facilities and equipment**—The government will evaluate the offeror's availability of facilities and the types and quantity of equipment to satisfactorily produce the required items and meet the proposed contract delivery schedule.

MOTIVATED by a mission

FOCUSED
on a goal

**Bridging the gap
between government
and industry
perspectives**

49th annual

aerospace + defense
contract management conference

March 17–18, 2011
Renaissance Glendale Hotel and Spa
Glendale, Arizona

www.ncmahq.org/adc11





- **Materials and purchased parts**—The contractor’s purchasing procedures should be evaluated to determine the capability for identifying requirements for vendor materials and supplies and placing subcontracts in advance of need.
- **Evaluating personnel**—An evaluation of the contractor’s proposed key personnel resources should be performed to assess whether the contractor meets the solicitation requirements.
- **Evaluation of delivery performance**—Sections VI and VII of the SF-1405 requires an assessment of the offeror’s overall past performance, with added emphasis given to performance on items like or similar to the bid item.

SF-1406: “Pre-Award Survey of Prospective Contractor—Quality Assurance”

The pre-award survey of the quality assurance areas (SF-1406) is meant to be an assessment of the offeror’s capability to comply with the quality assurance requirements as set forth in the solicitation. The assessment should involve an evaluation of the offeror’s quality assurance plan of performance as it relates to the quality assurance system. This includes an evaluation of the quality requirements contained in the solicitation and the offeror’s historical quality data.

Some of the factors that should be considered in the assessment of the offeror’s quality assurance plan of performance include the following:

- A review of the quality assurance or organizational structure (including organizational chart(s)) should be made to determine who the quality assurance officials are, what their respective responsibilities include, and what extent of organizational freedom they each have to correct quality deficiencies.
- The prospective contractor should have all quality requirements in place or demonstrate the ability to implement necessary changes to satisfy the quality requirements as stated in the solicitation. A quality assurance plan or quality manual is usually the method used by the offeror to demonstrate its quality assurance intentions.

- A determination should be made as to whether the prospective contractor understands all of the technical requirements of the contract, including drawings, specifications, marking requirements, and contract data requirements list items.
- A review of the contractor's quality performance records for the past 12 months should be conducted to determine compliance with quality assurance requirements and the level of its customers' satisfaction. This will likely include a review of product quality deficiency reports, internal and external corrective action requests, and field failure reports.
- A determination of the contractor's fulfillment of commitments to correct deficiencies noted on previous surveys (if any) should be conducted.
- **Financial statements**—balance sheet and income statements for the current period and two prior fiscal years.
- **Financial arrangements**—resources to be used in support of contract performance such as internally generated funds, outside financing, or a combination of both.
- **Government financial aid**—list of contracts with unliquidated progress payments by contract number and unliquidated amounts or any other type of financial aid currently being obtained from the government.
- **Sales**—current sales backlog and forecasted sales for an 18-month period segregated between government and commercial work.

It is critical that the financial statements be consistent year-to-year so that they will serve as a basis in determining the contractor's financial capability. The contractor's financial data should also include a certification as to the accuracy and completeness of the financial information being provided. Financial statements that are audited by an independent certified public accountant (CPA) will be considered satisfactory without the government seeking further certifications from the offeror.

The reviewer will evaluate the financial statements as to profitability and adequacy of the solvency ratios and working capital ratios. This information will be captured in Section III, "Balance Sheet/Profit and Loss Statement," of the SF-1407 and summarized in Section I, "Recommendation." The price analyst will provide comments in the narrative section of the form concerning the offeror's financial ratios as compared with industry standards.

If the offeror provides consolidated financial statements for review of a subsidiary where the level of ownership is greater than 50 percent, specific forms are to be completed by the offeror—such as Defense Logistics Agency (DLA) Form 619 or DLA Form 621, "Guaranty Agreement for Corporate Guarant-

or"—should be submitted to the price analyst as part of the final report.

The offeror should provide to the price analyst information detailing the company's financial arrangements if resources other than internally generated funds are to be used as a means of financing contract performance. This information will be included in Section IV, "Prospective Contractor's Financial Arrangements," in the SF-1407 and summarized in Section VI, Block 1.

In some cases the offeror will require additional funds ("outside financing") to enhance its financial capability. In such a case, the price analyst will evaluate the prospective contractor's proposed or anticipated method of financing.

If the offeror notes its intent to assign a contract to a lending institution in order to secure working capital for contract performance, the intent should be summarized in Section VI, Block 1, of the SF-1407 and described in the narrative of the financial analysis. The government reviewer will then request that the assignee prepare a "commitment letter" to the contracting officer. In the event the offeror's outside financing is an established line of credit with a financial institution, the reviewer will verify the credit line with the lending institution, as well as the amount available for use.

The terms and agreements between the lender of funds and the offeror will then be analyzed. If, for example, the solicitation has a progress payment provision and if the credit report reveals encumbered inventory, the reviewer will note this information on the SF-1407 and recommend to the contracting officer that a "subordination agreement"—DLA Form 620 or DLA Form 622—be obtained from the party who has first claim to the inventory in the event the prospective contractor is awarded the contract and elects to receive progress payments ("title issue").

The analyst will also request a credit report on the offeror from a commercial organization—such as Dun & Bradstreet or Standard & Poors—along with its corporate divisions that may be providing financing. The review-

SF-1407: "Pre-Award Survey of Prospective Contractor—Financial Capability"

The pre-award financial capability survey (SF-1407) is used to make a determination that the offeror has, or can obtain, adequate financial resources. The financial resources would be used to acquire needed facilities, equipment, or materials necessary for the successful completion of a specific contract. In determining an offeror's financial capability, the government will make an assessment of the contractor's financial plan of performance. Adequate financing is one of the more important prerequisites for successful contract performance. It is incumbent upon the offeror to demonstrate the capability to perform in accordance with the terms and conditions of the proposed contract.

The financial survey consists of a review of the following data and then conclusions are made through an assessment of the data. The evaluator will request from the offeror the following types of information for analysis:

Do you
know about
CareersConnect...



...the ContractManagementJobs.com
complementary quarterly e-newsletter?

Check it out today at www.ncmahq.org/careersconnect, and make sure your job
search is on the right track!

Let **ContractManagementJobs.com**
work for you!

er will include the credit report number in Section VI, “Business and Financial Reputation,” Block 3, and explain the credit rating found in the summary analysis section of the credit report. The payment summary section of the credit report reflects payment information (e.g., how timely the prospective contractor pays its obligations from trade creditors), which should be included in Section VI, Block 2 of the SF-1407.

The offeror will then be requested to disclose any outstanding liens or judgments against the company. Liens and judgments can be found under Uniform Commercial Code filings in the credit report. The analyst should investigate information concerning liens and judgments contained in the report which conflict with the information provided by the contractor. Contradicting information could be an integrity issue and would likely be a basis to consider a recommendation of no award with rationale clearly stated in the narrative. Liens and judgments are to be noted in Section VI, Block 6. The analyst will also make an evaluation of the financial impact of any outstanding claims against the prospective contractor.

A current backlog and an 18-month projected sales figure segregated between government and commercial work should be provided by the contractor. The offeror’s current backlog, along with forecasted sales, is contained in Section VII, “Sales.” Such information is used in determining whether the prospective contractor’s financial resources are adequate to support new work and sustain continued performance of in-house commitments.

Other factors to be considered in conducting the financial capability survey are capital outlay and contract type. For example, if an offeror requires additional equipment to perform a contract, the financial impact (“capital investment”) of acquiring the needed equipment should be evaluated. The proposed contract type determines the need for an offeror maintaining an adequate accounting system in accordance with the FAR. If the solicitation is planned to be cost type, fixed-price re-determinable, or a fixed-price contract with progress payments, an audit of the offeror’s accounting system will

likely be requested of the cognizant DCAA office. Having an “adequate” accounting system is one of the prerequisites to a contractor receiving progress payments.

SF-1408: “Pre-Award Survey of Prospective Contractor—Accounting System”

A pre-award survey of a prospective contractor’s accounting system is an examination of the accounting system before contract award. The review is made at the request of a contracting officer to determine the acceptability of a contractor’s accounting system for accumulating costs under a government contract. The survey is usually requested as part of an overall pre-award survey of a contractor conducted by a contract administration office.

The audit scope is generally limited to obtaining an understanding of the design of the contractor’s current accounting system (or one that is proposed) to enable the completion of the SF-1408, “Pre-Award Survey of Prospective Contractor Accounting System.” The survey is also an assessment of the essential procedures needed to reach an informed opinion on whether or not the design of the offeror’s accounting system is acceptable for accumulating costs under a government contract. The survey is not intended to be an in-depth evaluation of the overall accounting system.

The reviewer, typically from DCAA, will prepare the SF-1408 form. The information contained in **FIGURE 1** on page 53 is similar to the information evaluated via the SF-1408 review.

When conducting the pre-award survey of a prospective contractor’s accounting system, the contract auditor will make a determination of the acceptability of the contractor’s system and determine if the system is:

- In operation;
- Set up, but not yet in operation;
- Anticipated; or
- Nonexistent.

Special attention will be made to evaluate the ability of the accounting system to generate the specific cost information required under the anticipated type of contract and on any inequities that might occur if the prospective contract were executed. Cost determinations after contract award will be easier to effect if there is a workable relationship between the proposed contract type and the contractor’s accounting system.

When appropriate, the survey review should disclose whether the system will provide reasonable data for the projection of costs to complete a contract (“estimate to complete”). The auditor will make a determination on the equity and consistency of direct charging as generally applied by the contractor and as it is intended to be applied to the proposed contract. When a cost-type contract is contemplated, the auditor should consider whether the reimbursement of indirect costs will be on an actual basis or on a negotiated (e.g., “ceiling rate”) basis.

The auditor will provide comments on any particular or unusual items of cost that should be made the subject of an advance agreement or special contract clauses. If the auditor concludes that the accounting system is considered acceptable, there will likely be a recommendation that a more in-depth follow-up accounting system audit be performed after contract award—also known as a “post-award accounting system audit.”

Post-Award Accounting System Review

A pre-award accounting system review (SF-1408) typically occurs when, at the request of the contracting activity, the government contract auditor makes his or her initial review of the offeror’s accounting system to determine whether that system is considered to be adequate for the accumulating costs under cost-reimbursable contracts, and for determining progress payments under fixed-price contracts. At the conclusion of the pre-award review, the auditor will typically recommend that a more formal “post-award accounting system” review be conducted if the offeror is successful in the proposal effort.

The post-award accounting system audit is typically requested by the contracting officer. However, the contract auditor may also self-initiate the review. One of the key ingredients that the auditors will be looking for is whether the contractor has documented accounting procedures. The disadvantages of not having written procedures are twofold. First, when the auditor commences the accounting system review, he or she wants to ascertain what the contractor considers to be its ground rules for the treatment of costs. The auditor will test various aspects of the accounting system to determine whether the contractor's written description of its practices are being followed. If the contractor does not have its

processes clearly documented, the auditor will likely have to review a wide range of transactions or other accounting records to determine what the contractor is actually performing. The second disadvantage of not having clearly written procedures is that the contractor runs the risk of not consistently booking costs. If an accounting practice is in writing, it will tend to provide more consistency as to how the various groups within the company charge or allocate the costs.

The accounting procedures should also be very clear as to how the contractor accounts for the removal of unallowable costs from billings and the indirect cost pools. If the written procedures do not

describe what the separate classifications for unallowable costs are, the auditors will tend to perform a more in-depth assessment of specific accounts to ensure that the contractor is in fact removing the specifically unallowable costs, as well as other FAR Part 31 unallowables.

An adequate accounting system for tracking costs and providing vital financial information to management is not only important, but required for the performance of government contracts. The accounting system represents a combination of records, internal controls, and written procedures that function together in the process of accumulating and reporting financial data. During the

FIGURE 1.

PRE-AWARD ACCOUNTING SYSTEM SURVEY*		
This accounting system review is designed to determine the adequacy and suitability of an offeror's accounting system and practices for accumulating costs under the type of government contract to be awarded.		
Does the accounting system provide for:	Yes	No
▪ Proper segregation of direct costs from indirect costs? ▪ Identification and accumulation of direct costs by contract? Under a job order cost system, are subsidiary cost records for each individual contract generally available? ▪ A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives? ▪ Accumulation of costs under general ledger control? ▪ A timekeeping system that identifies employees' labor by intermediate or final cost objectives? ▪ A labor distribution system that charges direct and indirect labor to the appropriate cost objectives? ▪ Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account? ▪ Exclusion from costs charged to government contracts of amounts which are not allowable pursuant to FAR Part 31, "Contract Cost Principles and Procedures," or other contract provisions? ▪ Identification of costs by contract line item if required by the proposed contract?		
Printed Name and Title: _____		
Date: _____		

*This survey is adapted from DCAA audit program for Activity Code 17740, version 5.5, June 2009, titled "Pre-Award Survey of Prospective Contractor Accounting System."

performance of government contracts, the contractor is required to have accounting systems that are consistent with generally accepted accounting principles. However, government regulations, particularly FAR Part 31 and the Cost Accounting Standards, play a significant role in the tailoring of a contractor's accounting system.

Conclusion

Contractors need to be aware of the federal requirements relating to having proper accounting, estimating, and other management systems in place. Prospective contractors bidding for work in the U.S. federal market space also need to be aware of some of the so-called "barriers to entry" that some would say are difficult to achieve. Foremost is the requirement that the government deal with "responsible contractors."

Once a contractor is deemed to be "responsible," the government will likely perform one of several pre-award surveys as requested by the government buying activity. The process begins with a buying activity's request for a pre-survey and concludes with a procuring contracting officer's decision based on the recommendation of the survey team.

There are six different types of these surveys. Of them, the three most commonly encountered are the Pre-Award Accounting System Survey (SF-1408), the Technical Capability Survey (SF-1404), and the Production Capability Survey (SF-1405). In particular, the Pre-Award Accounting System Survey allows the contract auditors to make an assessment as to whether the contractor's accounting system is considered to be adequate for the accumulating costs under cost-reimbursable contracts and for determining progress payments under fixed-price contracts.

The ultimate goal is to achieve a positive recommendation from the various survey teams to facilitate the award of the contract to the contractor. **CM**

ABOUT THE AUTHORS

FRANK J. BEATTY, CPA, is a director in the Navigant Consulting, Inc., Government Contractor Services practice office in Vienna, Virginia. He is a Certified Public Accountant in the Commonwealth of Virginia.

GREGORY A. GARRETT, CPCM, NCMA FELLOW, C.P.M., PMP, is the managing director and practice leader in the Navigant Consulting, Inc., Government Contractor Services practice office. He is an international educator, best-selling author, highly respected consultant, and the recipient of numerous national and international business awards.

This article is a modified excerpt from the new book, Government Contract Audits and Compliance (Chicago, IL: CCH-Wolters Kluwer Law & Business, 2010).

Send comments about this article to cm@ncmahq.org.

ENDNOTES

1. See FAR 9.103(b).
2. See FAR 9.104-3(a)-(b).
3. Adapted from the DCMA booklet titled *Prospective Offeror's Guide to Pre-Award Surveys*.
4. See FAR 9.4, "Debarment, Suspension, and Ineligibility."
5. As described in FAR 9.106, "Pre-Award Surveys."
6. See FAR 53.301-1403. Electronic copies of the forms are available at www.acquisition.gov/far. Other forms (SF 1404-1408) for the surveys are located in FAR 53.301-140x.

