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## **USAID PROCUREMENT EXECUTIVE BULLETIN**

PROCUREMENT EXECUTIVE'S BULLETIN NO. 2015-02

SUBJECT: Review of Small Business (SB) Financial Statements for Proposed Indirect Rates

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- 1. Scope:** This Bulletin applies to all Contracting Officers/Contracts.
- 2. Purpose:** The purpose of this PEB is to support small businesses by providing alternative financial statement requirements from prime small business (SB) offerors for their proposed indirect rates responding to a solicitation which will result in award of a cost-reimbursement contract or IDIQ with cost-reimbursement orders.
- 3. Background:** When a Negotiated Indirect Cost Rate Agreement (NICRA) is not available, small businesses have requested USAID to reduce the burden of costly audited financial information to be submitted for their proposals. Further, acquiring a completed audit has also placed SB offerors at risk for timely proposal submissions.
- 4. Discussion:**

### **Evaluation of Proposed Indirect Rates by Prime SB Offerors**

Contracting Officers must adhere to requirements set forth in FAR part 42.<sup>1</sup> The following guidance is provided to ease prime SB submission requirements while complying with FAR part 42 requirements: If the SB Offeror does not have a cognizant Government Audit Agency (a negotiated indirect rate is not available), the CO may accept "reviewed financial

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<sup>1</sup>FAR part 42.704(b) currently states: "The contracting officer (or cognizant Federal agency official) or auditor shall establish billing rates on the basis of information resulting from recent review, previous rate audits or experience, or similar reliable data or experience of other contracting activities. In establishing billing rates, the contracting officer (or cognizant Federal agency official) or auditor should ensure that the billing rates are as close as possible to the final indirect cost rates anticipated for the contractor's fiscal period, as adjusted for any unallowable costs. When the contracting officer (or cognizant Federal agency official) or auditor determines that the dollar value of contracts requiring use of billing rates does not warrant submission of a detailed billing rate proposal, the billing rates may be established by making appropriate adjustments from the prior year's indirect cost experience to eliminate unallowable and nonrecurring costs and to reflect new or changed conditions."

statements” from small businesses, in lieu of “audited” financial statements<sup>2</sup>, if unavailable, to support proposed indirect rate(s). Differences between “audited” and “reviewed” statements are described in the PEB attachment. Compiled financial statements will not be accepted due to the absence of a certified accountant’s review. In the absence of a NICRA or audited financial statements which are most preferred, USAID may accept a “reviewed” financial statement with a certified accountant review prior to the submission of proposed indirect rates. Further, if the SB offeror receives an award, the office of Overhead Special Costs and Closeout Branch (OCC) within the Office of Acquisition and Assistance, Cost Audit and Support (CAS) Division, will issue a Negotiated Indirect Cost Rate Agreement (NICRA) after award<sup>3</sup> of the contract establishing provisional indirect cost rate(s). The CO must document compliance with FAR part 42 requirements in the negotiation memorandum.

#### SOLICITATION/CONTRACT INSERT

The following language is recommended for the Contracting Officer to insert for Indirect Rate proposal instruction in section L. in all new solicitations issued on or after the effective date of this PEB which will result in award of a cost-reimbursement contract or IDIQ with cost-reimbursement task orders.

*[Insert for Solicitations]*

[Business/Cost Proposal]

#### SECTION L.

##### ***Indirect Costs***

The prime and all major subcontractors may propose lower overhead rates than their established Negotiated Indirect Cost Rate Agreement (NICRA) and sign the letter found in ADS 300, Mandatory Reference for Best Practices Guide for Indirect Costing. Indirect rates proposed cannot be higher than the rates established in their Negotiated Indirect Cost Rate Agreement (NICRA). Please read further instruction below if your organization does not have a NICRA.

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<sup>2</sup> See attached reference for a summary description of Compilation vs. Review vs. Audit by the American Institute of CPAs (2010)

<sup>3</sup> Timing of establishing the NICRA after award will vary dependent upon submission of needed audit information, priority of the NICRA, auditor availability, etc.

Offerors may propose a single ceiling rate covering the term of award or a ceiling rate in each applicable contract year. If an annual ceiling rate is proposed, USAID will average the ceiling indirect rates and use that figure for evaluation purposes.

- (i) The Offeror and each major subcontractor must include a complete copy of its most current NICRA or other documentation from its cognizant Government Audit Agency, if any, stating the most recent provisional indirect cost rates. The proposal must also include the name and address of the Government Audit Agency, and the name and telephone number of the auditor.
- (ii) If the Offeror or major subcontractor does not have a cognizant Government Audit Agency, the proposal must include:
  - Audited balance sheets and profit and loss statements for the last two complete years, and the current year-to-date statements (or such lesser period of time if the Offeror is a newly-formed organization). The profit and loss statements should include detail of the total cost of goods and services sold, including a listing of the various indirect administrative costs, and be supplemented by information on the prime contractor's customary indirect cost allocation method, together with supporting computations of the basis for the indirect cost rate(s) proposed; and
  - The most recent two fiscal year pool and base cost compositions along with derived rates, the bases of allocation of these rates and an independent certified audit by a certified accounting firm of these rates.

#### EXEMPTIONS FOR SMALL BUSINESS OFFERORS ONLY

All the above instructions apply to small business offerors. However, if the small

business offeror does not have a NICRA, the proposal must include either Audited Financial Statements or Reviewed Financial Statements as defined below:

1. Audited Financial Statements provide the auditor's opinion that the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. In an audit, the auditor is required by auditing standards generally accepted in the United States of America (GAAS) to obtain an understanding of the entity's internal control and assess fraud risk. The auditor also corroborates the amounts and disclosures included in the financial statements by obtaining audit evidence through inquiry, physical inspection, observation, third-party confirmations, examination, analytical procedures and other procedures. The auditor issues a report that states that the audit was conducted in accordance with GAAS, the financial statements are the responsibility of management, provides an opinion that the financial statements present fairly in all material respects the financial position of the company and the results of operations are in conformity with the applicable financial reporting framework (or issues a qualified opinion if the financial statements are not in conformity with the applicable financial reporting framework. The auditor may also issue a disclaimer of opinion or an adverse opinion if appropriate).
2. Reviewed Financial Statements provide a certified CPA accountant's (referred to as "Accountant" or "CPA" herein) review; the accountant is not aware of any material modifications that should be made to the financial statements for the statements to be in conformity with the applicable federal financial reporting framework. During a review engagement, the Accountant obtains limited assurance that there are no material modifications that should be made to the financial statements. Therefore, the objective of a review of the financial statements is to obtain limited assurance that there are no material modifications that should be made to the financial statements. A review does not include obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records; or other procedures ordinarily performed in an audit. The CPA issues a report stating the review was performed in accordance with Statements on Standards for Accounting and Review Services; that management is

responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing, implementing and maintaining internal control relevant to the preparation.

The proposal must not include compiled financial statements. Compiled financial statements will not be accepted because the Accountant does not obtain or provide any assurance that there are no material modifications that should be made to the financial statements. That is, there is no assurance that the organization is misrepresenting costs on compiled financial statements which puts the agency at risk. The objective of compiled financial statements is to assist management in presenting financial information in the form of financial statements without undertaking to provide any assurance that there are no material modifications that should be made to the financial statements.

If the small business offeror receives an award based on the submission of Reviewed Financial Statements, within six months after the end of the small business offeror's fiscal year, they must submit an adequate final incurred cost proposal to the to the Contracting Officer (or cognizant Federal agency official) and auditor within the 6-month period following the expiration of each of its fiscal years in accordance with the Allowable Cost and Payment Clause FAR 52.216-7. The receipt of an adequate proposal by the audit office starts the audit process. This audit will establish the final indirect cost rate(s) for the audited year. Provisional rates will be updated as needed based on current information. USAID auditors will work with the small business to issue a NICRA establishing the proposed provisional indirect cost rates after award based upon acceptable information submitted above.

*[End of Insert for Solicitations]*

September 8, 2015  
Date

/S/  
Aman S. Djahanbani  
Senior Procurement Executive

Attachment: [Compilation vs. Review vs. Audit reference \(Note 2\)](#)