



QUESTIONS AND ANSWERS CONCERNING

2004 CHAPTER 13 AUDIT BIDS

Rev. July 12, 2004

Please note that Questions and Answers for prior audit bids are posted on the USTP website at www.usdoj.gov/ust. See tab on Private Trustee Listings & Library; Chapter 13 Handbooks & Reference Materials; Audit Process - Financial and Computer. For purposes of this bid, the term "geographical area" is synonymous with "region".

PRIOR AUDITS

Q1: Who are the prior year auditors for each of the regions in the solicitation?

A1: The prior audit firms are as follows:

Region 1 - Concannon, Miller & Company, (610) 433-5501

Region 2 - Concannon, Miller & Company, (610) 433-5501

Region 3 - Chiampou Travis Besaw & Kershner, (716) 630-2450

Region 4 - McBride, Lock & Associates, (816) 221-4559

Region 6 - McBride, Lock & Associates, (816) 221-4559

Region 7 - Seber, Tans, Dillenbeck, Howard & Craft (formerly Tans & McAfee),
(269) 343-8180

Region 11 - Seber, Tans, Dillenbeck, Howard & Craft (formerly Tans & McAfee),
(269) 343-8180

Region 12 - Ansell, Buffington & Co., (716) 204-1124

Region 13 - Hayes & Associates, (402) 390-2480

Region 14 - Hayes & Associates, (402) 390-2480

Region 15 - Conrad and Associates, (949) 474-2020

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Region 19 - Seber, Tans, Dillenbeck, Howard & Craft (formerly Tans & McAfee),
(269) 343-8180

Region 20 - Ansell, Buffington & Co., (716) 204-1124

Region 21 - Concannon, Miller & Company, (610) 433-5501

Q2: What audit fees were paid to the auditor for the prior year services? Was the scope of the

audit the same as in this bid?

- A2: Nationally, excluding Alabama and North Carolina, audit fees ranged from \$3,577 to \$26,763. The median fee was \$9,475; the average was \$9,932. The statement of work has been modified slightly for this bid but we do not believe it significantly affects resources required.
- Q3: How many firms were chosen on the last agreement to perform audit services and were the firms selected by the region? Were there or will there be multiple firms within a region?
- A3: Last year, nine firms performed audits of chapter 13 trustees. These firms were selected by the EOUST via a bidding process. For this bid, the geographical area corresponds to the United States Trustee region. There have been occasions in the past where the geographical area was the state.
- Q4: Are you able to provide audit firms with copies of the most recent audited reports and auditor's opinions on those reports?
- A4: It is logistically impractical to make available copies of the audited reports and auditor's opinions to all firms receiving the bid proposal. Annual report data by trustee is available, however, through the United States Trustee Program website at www.usdoj.gov/ust. See tab on Private Trustee Listings & Library; Chapter 13 Handbooks & Reference Materials; Chapter 13 Statistics. The most frequent findings in FY 2002 (FY 2003 data not available) involved segregation of duties, expense account issues, bank reconciliation process, fixed asset ledger, and computer password security. No adverse audit opinions were issued for the FY 2003 audits.
- Q5: Please provide historical or estimated data on the resources needed to audit a trustee.
- A5: The EOUST does not have that information for any geographical areas.
- Q6: Does EOUST have an estimated number of man hours required to perform the audit procedures for each trustee?
- A6: The EOUST does not have that information for any geographical areas.

BID AMOUNT QUESTIONS

- Q7: Generally, should the bid amount include estimated expenses for travel, if necessary?
- A7: All costs are to be included in the cost sheets.

- Q8: Should the bid amount be fixed fee or a time & expense daily rate?
- A8: All costs are to be included in the cost sheets. The bid amount is a firm fixed price which includes all associated audit costs and expenses.
- Q9: Is any other breakdown of bid amount required on Attachment A-2 Audit Services Cost Sheets?
- A9: No, we require only that the bid amount presented include all costs associated with performance of the audit.
- Q10: Concerning the audit services cost sheets, should bid amounts be prepared for all performance periods through 2009?
- A10: Yes.
- Q11: In Section 3.0 of the Audit Services Agreement (Attachment A), Payment, please clarify the payment schedule. What constitutes a proper invoice?
- A11: The first half of the price set forth in the cost sheets will be paid by the chapter 13 trustee upon completion by the audit firm of the field work and their presenting an invoice to the chapter 13 trustee for that amount. The balance of the price is to be paid only after the final audit report is accepted by the EOUST who would then provide written authorization for release of the final payment.

A proper invoice would be one addressed to the chapter 13 trustee, that describes the work done, that is, completion of the field work for the first payment, or issuance of the final audit report for the balance of the payment. The invoice would reference the payment stated in the audit cost sheet.

OTHER BID PROPOSAL QUESTIONS

- Q12: A firm intends to bid on multiple geographical areas. Do they have to prepare an individual proposal for each geographical area or may they submit one for all?
- A12: You may prepare one proposal for use in multiple regions but must provide two copies of the proposal for each geographical area bid upon.
- Q13: Is the printing or typing on each page to be the name of the offeror or the representative, or both?
- A13: The name of the offeror.

- Q14: How many Requests for Proposals were sent out?
- A14: Based on the response to our solicitation of interest letters, 138 requests for proposals were sent out.
- Q15: Evaluation Criteria, Specific Content of a Technical Proposal, Section IX(A)(1)(f), Describing professional relationship with the firm on the resume: does this indicate staff level, i.e., partner, manager, senior?
- A15: Yes.
- Q16: Evaluation Criteria, Specific Content of a Technical Proposal, Section IX(B)(1)(a): May we list more than three relevant projects on which we have worked?
- A16: We request that you list the three most relevant projects.
- Q17: Evaluation Criteria, Instructions for Preparation of Business Management Proposal, Section VI(L) requests a copy of a recent audit program used on a similar project. If the audit program is very long, may we submit a more abbreviated audit plan that presents the basic steps of the audit and a table of contents for work papers?
- A17: Yes.
- Q18: What would you like to see as a sample audit program?
- A18: We are interested in seeing your typical audit program that indicates your planning and approach to the engagement, as well as your knowledge of a specific industry.
- Q19: Prior to submitting a bid, may the audit firm communicate directly with each chapter 13 trustee to determine his or her accounting qualifications and ability to record transactions correctly?
- A19: That will not be possible. Because of the number of bidders, contact with the trustees would be disruptive to the operation of the chapter 13 trust.
- Q20: Is it possible to e-mail audit firms the electronic file for Audit Services Cost Sheets?
- A20: It is logistically impractical to e-mail to all responders the particular file for those geographical areas in which individual firms expressed interest.
- Q21: How and where is the Audit Services Agreement to be signed?

- A21: Audit firms will sign the Agreement at the one-day training session. EOUST will then forward the Agreements to the chapter 13 trustees for their signatures. Copies of the fully-executed Agreements will be mailed to you.
- Q22: If we do not win the engagement, will you indicate how many points we had or ways for improvement in the future?
- Q22: This is not a government contract; consequently, there is no requirement for debriefing.

BIDDING ON INDIVIDUAL TRUSTEES VERSUS REGION

- Q23: May audit firms bid on some geographical areas but not all?
- A23: The successful audit firm will audit all the individual trustees listed in Attachment D for the particular geographical area. Audit firms do not have to bid on all geographical areas.
- Q24: Is the audit firm performing an audit of the individual chapter 13 trustee or of the entire geographical area?
- A24: The successful audit firm will audit all the individual trustees listed in Attachment D for the particular geographical area.
- Q25: May a firm bid on selected trustees or must it bid on the entire region?
- A25: The successful audit firm will audit all the individual trustees listed in Attachment D for the particular geographical area.

STATEMENT OF WORK QUESTIONS

- Q26: Is there a prescribed auditor opinion format?
- A26: There is no prescribed format for the Auditor's Report on the Annual Report. The format to be used for reporting on the Prescribed Procedures is described on pages 5-6 of the Statement of Work (Attachment A-1).
- Q27: Statement of Work (Attachment A-1), Section IV, Internal Controls over Computer Operations (pages 7-8): Does this section require an EDP professional?
- A27: No, but we do expect the auditor to review the internal controls procedures to ensure accurate input of data and appropriate access to information.
- Q28: Is there a prescribed procedure for verifying whether 1099's were issued to appropriate parties?

- A28: No.
- Q29: The Statement of Work at page 8 refers to “positive pay”. Please define.
- A29: With a positive pay arrangement, the chapter 13 trustee generates and electronically transmits a check file to the bank daily or whenever a check is issued. That file contains the account number, check number, dollar amount and date issued. The bank maintains the file of outstanding checks forwarded from the chapter 13 trustee and when checks are presented to the bank for payment, the bank performs a "positive" match on the check before paying funds. If a check presented to the bank for payment does not match the chapter 13 trustee's file, the bank places a hold on the check and contacts the chapter 13 trustee.
- Q30: Does SAS 99 (“Consideration of Fraud in a Financial Statement Audit”) have any impact on procedures?
- A30: We believe this issue is covered by AICPA pronouncements and suggest you look there for guidance.
- Q31: SAS 99 (“Consideration of Fraud in a Financial Statement Audit”) is a requirement for all GAAS audits. This includes inquiries and documentation of responses from the Audit Committee, the chapter 13 trustee and employees of the trustee. Is this in accordance with your understanding and, if so, would you consider the EOUST the Audit Committee?
- A31: The EOUST is not the Audit Committee. The United States Trustee has a statutory and regulatory oversight and law enforcement role.
- Q32: If a sample tested has significant discrepancies, are there any additional procedures required and, if so, what fee arrangements are made for extra work?
- A32: If the sampling is part of the work performed on the audit of the annual report, the decision whether additional procedures are required is one made by the audit firm in accordance with professional standards. If the sampling is pursuant to the Report on Prescribed Procedures, disclosing the discrepancies in the Report is sufficient. See the Audit Services Agreement at section 6.0, Changes to the Statement of Work, Additional Work and Extra Work (“Change Orders”), for procedures to follow if a Change Order is required.
- Q33: Statement of Work, page 3, last sentence: “The auditor should consider using non-trustee prepared population documents (e.g., bank statements) when selecting samples.” Please explain and identify other permissible sources.

A33: Auditors are responsible for selecting the test items to be sampled and should not rely on lists prepared by the chapter 13 trustee.

Q34: Statement of Work, page 6, last paragraph. Our interpretation is to pull ten cases. The ten cases are each to contain the various types of reviews. Is that a correct assumption?

A34: Yes.

ANNUAL REPORT QUESTIONS

Q35: The chapter 13 trustee fiscal year ends September 30. When will annual reports be completed and ready for audit fieldwork?

A35: The base period of performance is October 1, 2004, through January 31, 2005. Chapter 13 trustees may complete the annual report any time between October 1, 2004, and November 15, 2004, when it must be submitted to the United States Trustee. Some work may begin prior to submission of the annual report but final field work cannot begin until the trustee has completed his annual report for the fiscal year.

Q36: Is the chapter 13 trustee responsible for preparing the annual report and any related disclosures?

A36: The chapter 13 trustee is responsible for preparing the annual report and exhibits.

Q37: Will the chapter 13 trustee prepare the financial reports to be audited in the format as described in Attachment C? Or is it the responsibility of the auditor to reclassify any amounts into the prescribed format?

A37: The chapter 13 trustee will prepare the annual report. From time to time, the auditor may, as needed, suggest adjustments.

Q38: Is there one annual report for the geographical area or separate reports for each chapter 13 trustee within that geographical area?

A38: There is a separate annual report for each chapter 13 trustee within the geographical area.

CONFLICT QUESTIONS

Q39: Would a firm have a conflict of interest if a principal/partner, who is also an attorney, had represented a debtor in chapter 13 bankruptcy while with another firm, and that case is currently being administered by a chapter 13 trustee whom the firm would be auditing? If that principal/partner did not work on the engagement for that trustee would there still be a conflict of interest or independence issues?

- A39: Without knowing the specific fact situation, we cannot make a conclusive determination. If the principal/partner currently represents parties in chapter 13 cases, the firm has a conflict of interest and is not eligible to bid in that particular geographical area. If the principal/partner is no longer engaged in chapter 13 representation, but old cases are still pending, the firm may bid on the audit work if the principal/partner is “walled off” from auditing personnel and the engagement. If the principal/partner performs chapter 7 debtor bankruptcy work, the firm may still have a conflict of interest because of the potential for case conversions to chapter 13.
- Q40: Audit firm provides accounting services and teaches debtor education classes for a chapter 13 trustee in a particular geographical area. Does that prevent the firm from bidding on audit services in that area?
- A40: Section 5.7 of the Audit Services Agreement (Attachment A) requires that the successful firm for the particular geographical area, “represents, warrants and agrees that during the term of this Agreement it does not and shall not engage in providing accounting services for the Standing Trustee or any firm with which the Standing Trustee is associated as an owner, shareholder, partner, associate, or employee.” This provision precludes a firm from performing both audits and accounting services for chapter 13 Trustees in the particular geographical area. If you no longer provide accounting services, please review your professional standards to determine whether you have a conflict or the appearance of a conflict.
- Q41: Our firm acted as a subcontractor for certain chapter 13 trustees in a particular geographical area. We performed the fieldwork and wrote the report, but the opinion was rendered by the contracting firm. May we bid on that geographical area?
- A41: As noted in section XIV of the 1999 evaluation criteria, which addressed how offers for the performance of audit services would be evaluated and included instructions and conditions for offers, “[i]n order to insure the integrity of the Standing Trustee audit program, the successful contractor will not be allowed to compete for the subsequent contract at the end of the option periods.” You functioned as the contractor in many respects in the performance of these audits; consequently, you would not be eligible to bid on this particular geographical area.

OTHER

- Q42: My firm has no direct experience performing chapter 13 audits. Does the firm qualify to submit a proposal?
- A42: Yes, but it is expected that you meet AICPA requirements that you become knowledgeable about the industry sufficient for you to express an opinion on the annual report.
- Q43: If an audit firm is not renewed, will other offerors be considered based on the proposals submitted on July 16, 2004, or will the EOUST send out a request for proposals for

submission of new bids?

A43: If an audit firm is not renewed, the EOUST will send out a new request for proposal for audit services in that particular geographical area.

Q44: How many trust and expense bank accounts are there for each chapter 13 trustee?

A44: It varies with the practice of the chapter 13 trustee. Each chapter 13 trustee is required to maintain a pre-confirmation trust account, a post-confirmation trust account and an operating expense trust account. Other special accounts may be required or established with approval of the United States Trustee.

Q45: What is the number of checks and number of deposits per chapter 13 trustee?

A45: The EOUST does not have that information for any geographical areas.

Q46: Will the audit firm have access to the trustee's software and/or ability to export data to an ASCII or Excel file?

A46: This will depend on the chapter 13 trustee.

Q47: Is there a uniform accounting program used by the chapter 13 trustees or do they vary?

A47: There is no uniform accounting program used by chapter 13 trustees.

Q48: What program(s) are used to track receipts and disbursements?

A48: Nationwide (excluding Alabama and North Carolina), 97% of chapter 13 trustees use software provided by five major chapter 13 trust fund software vendors. Those vendors are:

Bankruptcy Software Specialists
1715 Aaron Brenner Drive, Suite 400
Memphis, Tennessee 38120

Compu-Management Corporation
3127 Lee Highway
Bristol, VA 24201

EPIQ Systems, Inc.
501 Kansas Avenue
Kansas City, KS 66105-1309

Ramapo Information Systems, Inc.
510 Hamburg Turnpike, Suite 104
Wayne, NJ 07470

Satori & Associates, Inc.
1815 Lockeway Drive, Suite 104
Alpharetta, GA 30004

Q49: Are interim reports filed by the chapter 13 trustees during the fiscal year or is reporting of activity and transactions strictly on an annual basis?

A49: The chapter 13 trustees are required to send monthly reports to the United States Trustee.

Q50: May the audit firm obtain a copy of adjusting journal entries from the previous audit?

A50: The EOUST does not have that information for any geographical areas.

Q51: Is there an audit guide for testing of the Handbook for Chapter 13 Standing Trustees?

A51: No.

Q52: Please provide information on the qualifications of chapter 13 trustees and their staff.

A52: See Chapter 2 of the Handbook for Chapter 13 Standing Trustees (Appointment and Qualifications of the Standing Trustee and General Requirements), posted on the USTP website at www.usdoj.gov/ust. See tab on Private Trustee Listings & Library; Chapter 13 Handbooks & Reference Materials; Handbook and Policy Guidance. The EOUST does not have information on the qualifications of trustee staff; they are hired by the chapter 13 trustee.

Q53: Does each chapter 13 trustee utilize a standard accounting and procedures manual, or do accounting policies, procedures and processes materially differ between offices?

A53: Chapter 13 trustees are required to maintain an accounting manual and systems documentation but no standard format is provided.

Q54: When and where do you anticipate conducting the training for the audit firms? Are we allowed to bring several employees to the training?

A54: Detailed information concerning the training will be sent to successful audit firms with the notification letter. We anticipate that the training will be held within 3-4 weeks of notification and that more than one person from each firm will be able to attend. The person(s) attending the one-day training should be involved in setting up the in-house

training program. Additionally, the successful audit firms will be asked at the training session to sign the agreements. Consequently, the person attending should have signatory authority for the firm.

Q55: May we use electronic (paperless) auditing software to store our work papers?

A55: The Audit Services Agreement at section 5.4 allows the audit firm to maintain documents used to provide audit services in electronic form if authorized in writing by EOUST. The Agreement also provides that the auditor will give the EOUST access to these documents upon request.

Q56: What is the required retention policy for the audit work papers?

A56: The Audit Services Agreement at section 5.4 requires that the audit firm archive and maintain all documents used in providing audit services, including but not limited to correspondence, electronic mail and work papers, for a period of not less than three (3) years following the issuance of the final audit report or termination of the engagement.

Q57: You prepared an Audit Services Agreement to be signed by the audit firm and chapter 13 trustee. We have our own engagement letter for these types of engagements. May we use our engagement letter in addition to the one you provide?

A57: No, audit firms may not use their own engagement letter either in lieu of or in addition to the Audit Services Agreement.

Q58: Do Government Auditing Standards apply to this engagement?

A58: No, this is not a government contract.

Q59: As far as we can tell, we will need to obtain our CPA license in each state for the agreements awarded. Is this in accordance with your understanding or does the Federal government contract override this issue?

A59: This is not a government contract. You will need to determine CPA license requirements.

Q60: Auditors need to be licensed in a state to perform work there. We plan to wait until we know we are the successful bidder before we will request licenses in those states. Is that acceptable?

A60: Yes, but the firm must inquire of the specific licensing agency before submitting the bid to determine the requirements for a temporary license, and must determine that the firm can reasonably expect to meet those requirements and that the license can be granted before the audit begins. The Agreement requires that the successful audit firm be qualified to audit each chapter 13 trustee in the geographical area. If the audit firm does not meet this

requirement, the firm cannot perform the work.

Q61: Will the successful audit firms have access to the prior auditors' work papers?

A61: The prior audit firm is under no contractual obligation to provide the successor audit firm with access to their work papers but may choose to.

Q62: Is the expectation that the final audit report is issued by January 31, 2005?

A62: Yes, the initial period of performance during which audit services are to be performed is October 1, 2004, through January 31, 2005. See Audit Services Agreement at section 2.1.

Q63: Can the EOUST provide successful audit firms with a pre-programmed format for the Report on Prescribed Procedures?

A63: The EOUST does not have a pre-programmed format but we are able to provide the Statement of Work in electronic format.