

**Master Document – Audit Program**

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| <b>Activity Code 17100</b>  |                                | <b>Termination, Cost Contracts</b> |
| <b>Version 4.26, dated March 2018</b>   |                                |                                    |
| <b>B-1</b>  | <b>Planning Considerations</b> |                                    |
| <b>Type of Service - Attestation Examination Engagement</b>   |                                |                                    |
| <b>Audit Specific Independence Determination</b>  |                                |                                    |
| <p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 34) prior to starting any work on this assignment.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g. technical specialists) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p>  |                                |                                    |
| <b>Purpose and Scope</b>  |                                |                                    |
| <ol style="list-style-type: none"> <li>1. This program is intended to provide a logical sequence to the audit effort and to reflect a mutual understanding between the auditor and the supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps in the program are intended as general guidance and should be modified as considered necessary to fit the current audit.</li> <li>2. The objective of the termination audit is to develop information and documentation to serve as a basis for reporting to the Termination Contracting Officer (TCO) the allowable costs, settlement expenses, and profit and/or loss under the terminated contract, based on the contractor's proposal and supporting records. Applicable Government acquisition regulations will be used as criteria against which the contractor's proposal will be measured.</li> <li>3. Audit procedures for reviewing costs proposed on a terminated cost-type contract are essentially the same as those established for a normal incurred cost audit. The settlement expense allowance, however, requires action to assure proper adjustment for indirect type expenses proposed as a direct cost of the termination settlement. A full termination usually requires two audit reports: one addressing the final settlement proposal and the other a Contract Audit Closing Statement for vouchered costs and fee. The later report should include a reconciliation of both reports, summarizing total costs and fee claimed. A partial termination claim settlement is limited to fee adjustment.</li> </ol> |                                |                                    |
| <b>Planning Considerations</b>  |                                |                                    |
| <p>Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.</p>  |                                |                                    |

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| <b>References</b>                                 |
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| 1. DoD CAS Working Group Guidance 77-15           |
| 2. CAM Chapter 12 (Auditing Terminated Contracts) |
| 3. FAR Part 49                                    |
| 4. FAR 31.205-42                                  |
| 5. CAM Appendix B, " Specialist Assistance"       |

| <b>B-1</b>   | <b>Preliminary Steps</b> |  |
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| <b>Version 4.26, dated March 2018</b>  | <b>WP Reference</b>      |  |
| 1. Electronically transmit an acknowledgement/notification to the TCO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-305). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.  |                          |  |
| 2. Make a general review of the provisions of the terminated contract, the notice of termination, the contractor's settlement proposal, and supporting schedules to determine whether the proposal contains the information necessary to plan and perform the audit.   |                          |  |
| 3. Review permanent audit files and prior audits to obtain background information and identify potential audit leads to help establish audit scope.  |                          |  |
| 4. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures: <ul style="list-style-type: none"> <li>a. During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.</li> <li>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant</li> </ul> |                          |  |

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| <p>prior DCAA audit findings that could have a material effect on the subject matter of audit.)</p>   |  |
| <p>5. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <p>a. During the entrance conference:</p> <ul style="list-style-type: none"> <li>• Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.</li> <li>• Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result.</li> </ul> <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"> <li>• Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment.</li> <li>• Document the results of the determination in writing.</li> <li>• If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.</li> <li>• If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports.</li> <li>• The request, issued by the CAC, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers.</li> </ul> <p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> |  |

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| <ul style="list-style-type: none"> <li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li> <li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li> </ul> <p>d. Document the results of the inquiries including the response received from contractor’s for any request for access to internal audit reports. (If access was not granted this should include the contractor’s rationale or justification for not granting access).</p> <p>e. Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)</p> |  |
| <p>6. Determine the extent to which the termination proposal includes costs previously audited.</p>   |  |
| <p>7. Understanding and Evaluating the Contractor’s Internal Control Structure</p>  |  |
| <p>a. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. Obtain and document an understanding of the estimating system and any other applicable internal control systems the contractor may have (e.g., labor, MMAS). Identify any deficiencies, which would impact the audit and document their potential impact on each significant cost element. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.</p>  |  |
| <p>b. When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4j and 10-705b.</p>   |  |
| <p>8. Examine the settlement proposal and supporting schedules. If not already provided electronically, request the contractor to submit its proposal and supporting data in electronic media, (e.g., CD-ROM, on-line access). The data should be in an acceptable format for processing on DCAA computers (e.g., Microsoft Office products). Based on a review of the proposal and supporting schedules, determine if:</p>   |  |
| <p>a. Settlement proposal forms have been properly prepared.</p>  |  |
| <p>b. Certifications have been executed properly.</p>   |  |
| <p>c. Mathematical computations are correct.</p>  |  |

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| d. Supporting schedules covering inventories, overhead, and similar items are in agreement with related items.   |  |
| 9. Ascertain whether the cutoff was made promptly upon receipt of, or in accordance with, the termination notice.  |  |
| 10. Subcontracts:  |  |
| a. Determine that timely termination notices were issued to all subcontractors.  |  |
| b. Determine whether a field review of a subcontractor's termination settlement proposal should be obtained (FAR 49.107). On determining and documenting the need for an assist audit, establish whether an assist audit has already been requested by the TCO. If a needed assist audit has not been appropriately requested, ask the TCO to request any necessary assist audits.   |  |
| c. If this is an audit of a terminated subcontract, determine at the start of the audit whether the subcontractor will have any restrictions or reservations on the release of the audit report to the higher-tier contractor. If so, promptly notify the TCO to determine whether the settlement proposal audit should be continued. The TCO, working with the higher-tier contractor, may be able to remove the subcontractor's restrictions or reservations. Follow the guidance in CAM 10-206.3 if the audit is completed at the request of the TCO, despite the subcontractor's restrictions or reservations. |  |
| 11. Make selective tests covering the mathematical accuracy of footings and extensions of inventory schedules.   |  |
| 12. Arrange an entrance conference with the contractor personnel responsible for preparing the proposal. If applicable, include a follow up with contractor management on:<br><br>a. corrective actions that address previous DCAA audit findings and recommendations (step 5),<br><br>b. other studies or audits that impact the subject matter under audit (step 6).   |  |
| 13. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.  |  |
| 14. Review contractor's correspondence files pertaining to the terminated contract/purchase order and make excerpts of pertinent information.  |  |
| 15. Review SF 1439 "Schedule of Accounting Information," and determine if accounting practices applied to the proposal deviate from disclosed or established accounting procedures. Discuss deviations, if any, with the contractor. Determine if the practices comply with FAR 31.205-42.   |  |

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| <p>16. Ascertain the availability of supporting schedules or other data prepared by the contractor in connection with the settlement proposal.</p>   |  |
| <p>17. Determine the extent to which the settlement proposal includes significant interorganizational or affiliated company profit. The auditor should question excess charges resulting from pricing interorganizational transactions inconsistently with the provisions of FAR 31.205-26.</p>  |  |
| <p>18. Review the individual charges comprising the settlement proposal for any items that appear to be out of line or unreasonable in amount. Determine whether the termination proposal contains costs already covered by an equitable adjustment proposal or claim (CAM 12-103b).</p>   |  |
| <p>19. Examine adjusting journal entries made just prior to effective date of termination and those subsequent thereto with a retroactive effect for the purpose of detecting manipulations or loading of termination charges.</p>   |  |
| <p>20. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be documented in the working papers.</p>  |  |
| <p>21. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential noncompliances, due to error or fraud, that could materially affect the subject matter.<br/>The discussion should include:</p> <ul style="list-style-type: none"> <li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),</li> <li>• relevant aspects of the contractor and its environment</li> <li>• risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements),</li> <li>• other known risk factors,</li> <li>• the audit team’s understanding of relevant internal controls</li> <li>• inquiries to the contractor regarding its fraud management plans and controls.</li> </ul> <p>Document fraud risk factor/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject</p> |  |

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| <p>matter. If fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> <li>• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (<a href="http://gao.gov/products/GAO-12-331G">http://gao.gov/products/GAO-12-331G</a>)</li> <li>• DoDIG’s Contract Audit Fraud Scenarios and Resources website (<a href="http://www.dodig.mil/Fraud-Resources/ContractAudit/">http://www.dodig.mil/Fraud-Resources/ContractAudit/</a>)</li> </ul> <p>(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in a web browser (Firefox, Edge, etc.)).</p> |  |
| <p>22. Summarize the results of the risk assessment and preliminary audit steps and clearly identify the planned scope of audit for each cost element.</p>   |  |

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| <b>C-1</b>  | <b>Inventory</b> |                     |
| <b>Version 4.26, dated March 2018</b>   |                  | <b>WP Reference</b> |
| 1. <u>Physical Inventory</u>  |                  |                     |
| <p>a. Obtain copy of Inventory Verification Report (SF 1423) from TCO to assist in evaluating the reasonableness of the assigned termination inventory. Telephone requests to the TCO for a copy of the inventory verification report should be followed up in writing as required by CAM, Appendix B. Government technical personnel (external specialist) have prime responsibility for verifying inventory quantities, quality, and physical applicability. However, if adequate alternative measures in lieu of the inventory verification report are used to verify the accuracy of the proposed inventory, the audit working papers should be documented as such and the audit report so indicated.</p> |                  |                     |
| <p>(1) To the extent feasible, test check inventory items for physical count and allocability to the terminated contract.</p>   |                  |                     |
| <p>(2) Where practicable, determine if any portion of undelivered termination inventory has been lost, destroyed, stolen, or damaged. Question the costs if the contractor cannot account</p>   |                  |                     |

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| for the undelivered termination inventory.  |  |
| <b>2. Pricing Termination Inventory</b>   |  |
| a. Review the method for costing the inventories.   |  |
| b. Test raw materials, purchased parts, and supplies inventory. (Use statistical sampling whenever appropriate.)  |  |
| (1) Compare inventory prices to vendor invoices and purchase orders.  |  |
| (2) Assure cash discounts or rebates have been deducted from invoice price or otherwise credited to settlement proposals on an equitable basis.   |  |
| (3) Determine that material handling charges and similar expenses are excluded from indirect expense allocations if included in material prices.  |  |
| (4) Determine if these items can be used on other work or returned to vendor.   |  |
| <b>3. Work in Process Inventory (WIP)</b>   |  |
| a. WIP based on actual costs. Trace material and labor charges to vendor invoices and payroll records on a test basis.  |  |
| b. WIP based on standard costs. Determine that standards used are consistent with standards in costing all work and that equitable adjustment has been made for variances.  |  |
| c. WIP based on estimated costs if approved by TCO (FAR 49.206-1(c)). Obtain specialist assistance to help evaluate the reasonableness of the estimated labor hours charged to the WIP inventory.                                 |  |
| d. Improperly classified materials. Determine that raw materials and purchased parts have not been included in the WIP.   |  |
| <b>4. Inventory Items Generally Unallowable</b>   |  |
| Review composition of termination inventory to determine existence and allowability of the following items:   |  |
| a. Common items. Material that can be diverted to other work without loss to the contractor should be identified and questioned (CAM 12-304.5).   |  |
| b. Material acquired prior to date of contract. This item is ordinarily not allowable except under certain circumstances. Ascertain reasons for including in inventory and determine its validity. See CAM 12-304.3 for guidance. |  |
| c. Material acquired or produced in unreasonable anticipation of  |  |

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| delivery schedule requirements. Obtain assistance of a specialist to help determine whether procurement or production was unreasonably accelerated (CAM 12-304.4).  |  |
| d. Material items that could be returned to suppliers. Identify and question the cost less supplier's restocking charge, transportation, and handling charges (CAM 12-304.8).   |  |
| e. Material received subsequent to termination. Examine receiving reports and question any substantial shipments by suppliers after notice of effective date of termination.  |  |
| f. Is first article inspection clause (FAR 52.209-3g) in contract? If the contract contains this clause and Government approval of the first article was not obtained, question production costs of items other than the first article. |  |

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| <b>D-1</b> | <b>Proposed Special Items Of Production Costs</b>   |                     |
|            | <b>Version 4.26, dated March 2018</b>   | <b>WP Reference</b> |
|            | 1. Production losses (CAM 12-304.6). Determine its reasonableness and allocability to the terminated effort. Costs of the termination inventory should not include costs allocable to units shipped.  |                     |
|            | 2. Rejected work (CAM 12-304.7). Ascertain reporting of rejected work. Nonreworkable rejects should not be included in the inventory schedule. Costs are recoverable, however, as part of the termination settlement if allocable to the terminated portion of the contract. Reworkable rejects should be listed on inventory schedules and costed at contract price less the estimated cost of rework.     |                     |
|            | 3. Special tooling, special machinery and equipment, special test equipment (CAM 12-304.13 and 12-304.14). Loss of useful value of these items is allowable provided the items meet the FAR definitions and specific FAR 31 criteria. Verify that items qualify under the definitions in FAR 45.101. Obtain specialist assistance, if necessary. Determine if costs meet the requirements of FAR 31.205-42. |                     |

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| <b>E-1</b> | <b>Proposed Other Costs - Cost Contracts</b>  |                     |
|            | <b>Version 4.26, dated March 2018</b>   | <b>WP Reference</b> |
|            | 1. Other costs frequently include such items as initial costs, engineering costs, royalties and patent costs, mass severance pay, rental costs on unexpired leases, travel costs, and costs continuing after termination. Frequently, cost categories contain considerable variation. Therefore, detailed audit guidance provided in CAM 12-305 and should be |                     |

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| carefully reviewed prior to developing specific audit steps. Determine whether acceptable items of other costs have been allocated to completed, terminated, and continuing portions of the contract on an equitable basis.                              |  |
| 2. If the contractor's total direct material, labor, and indirect costs for the years involved in the proposal have previously been audited, check these costs for agreement with the contractor's books and audited indirect cost rates (CAM 12-303.2). |  |
| 3. If the contractor's costs have not been audited, perform selective incurred cost tests of direct material, labor and indirect costs (CAM 12-303.2).   |  |
| 4. Refer to CAM 12-404 for audit guidance where costs and fee are vouchered out and where costs and fee are submitted in settlement proposal.  |  |
| 5. For a total termination, ascertain that costs proposed for Items 1 - 4 (SF 1437) represent costs incurred only to date of termination.  |  |
| 6. For a partial termination ascertain that costs proposed for Items 1 - 4 (SF 1437) represent costs incurred only to date of termination.   |  |
| 7. If the contract includes the Limitation of Cost (FAR 52.232-20) or the Limitation of Funds (FAR 52.232-22) clause (CAM 12-408), determine questioned costs under the termination settlement proposal as follows:                                      |  |
| (1) Evaluate the settlement proposal costs (proposed contract costs plus proposed settlement expenses (per CAM 12-309 and 12-401 to 12-406). Question any unallowable costs.   |  |
| (2) Quantify the allowable proposed contract costs and the allowable settlement expenses.  |  |
| (3) Determine prior allowable contract costs not included in the termination settlement proposal.  |  |
| (4) Add the allowable proposed contract costs and settlement expenses (Step (2)) and prior allowable contract costs (Step (3)) to determine the total allowable costs.   |  |
| (5) Ascertain the total amount of funds allotted to the contract including any revisions to the original contract funding.   |  |
| (6) Compare the total allowable costs (Step (4)) to the total funds allotted to the contract (Step (5)). Question any allowable costs that exceed the funding limitation.  |  |
| (7) Determine total questioned costs, the sum of unallowable proposed contract costs and unallowable settlement expenses (Step (1)) and cost in excess of the funding limitation (Step   |  |

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| <b>F-1</b> | <b>Proposed Costs Continuing After Termination</b>   |                     |
|            | <b>Version 4.26, dated March 2018</b>  | <b>WP Reference</b> |
|            | Generally, only costs associated with termination activities are allowable after the effective date of termination. FAR 31.205-42(b) allows the contractor to recover post-termination costs (assuming costs meet other allowability criteria) if the costs cannot reasonably be discontinued immediately after notice of termination. |                     |
|            | 1. Obtain contractor rationale for incurring costs after termination date.   |                     |
|            | 2. Review circumstances and necessity for incurring costs and determine if there was reasonable effort to discontinue their incurrence.  |                     |
|            | 3. Obtain specialist assistance in reviewing the reasons for contractor failing to immediately terminate production or subcontractor effort.   |                     |

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| <b>G-1</b> | <b>Proposed Indirect Costs</b>  |                     |
|            | <b>Version 4.26, dated March 2018</b>   | <b>WP Reference</b> |
|            | Techniques for auditing indirect cost pools and indirect cost allocations are discussed in CAM, Chapter 6, Section 6.   |                     |
|            | 1. Determine the reasonableness of the method and base period for the allocation of indirect expenses.  |                     |
|            | 2. Assure that any functions normally charged indirect and reclassified direct for this termination are excluded from indirect allocations. Items charged consistently indirect according to a contractor established or disclosed practice may be properly charged consistently as direct costs in settlement proposals. |                     |
|            | 3. Ascertain that terminated inventory excludes indirect costs not properly allocable because of the completion stage of the terminated inventory (for example, packing, shipping, and inspection).   |                     |
|            | 4. Determine that indirect cost rates are based on a full cost accounting period (CAS 406).   |                     |

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| <b>H-1</b> | <b>Proposed G&amp; A Expenses</b>                                      |                     |
|            | <b>Version 4.26, dated March 2018</b>                                  | <b>WP Reference</b> |
|            | Established audit procedures for review of G&A expenses are applicable |                     |

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| to termination claims. See CAM Chapter 6, Section 6, and FAR Part 31.203.   |  |
| 1. Assure that costs of an indirect nature proposed as direct termination costs have been excluded from the G&A expense pool. See the Review of Proposed Indirect Costs Section, Step 2.  |  |
| 2. Ascertain that proposed post termination costs do not include unabsorbed costs - CAM 12-305.7b (e.g., occupancy costs that would have been allocated to the contract if not terminated are not allowable as costs continuing after termination). The Armed Services Board of Contract Appeals has held that unabsorbed overhead is related to the contractor's existence as an ongoing organization and is not a continuing cost of a terminated contract; further the Government is not a guarantor of the contractor's continuing overhead nor is such intended by the language in the termination clause. |  |

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| <b>I-1</b>  | <b>Fee</b> |                     |
| <b>Version 4.26, dated March 2018</b>   |            | <b>WP Reference</b> |
| 1. Comment if the contractor incorrectly applied fee to subcontract costs. The adjusted fee shall be based on the percentage of completion of the contract, but should not include an allowance for fee for subcontract effort included in subcontractors' settlement proposals (FAR 49.305-1 and CAM 12-403a). |            |                     |
| 2. To help the TCO adjust the fee, provide comments on the total estimated cost to complete the contract. Also provide comments on the relationship between the physical percentage of completion and the percentage of costs incurred to the total estimated cost of performing the contract.                  |            |                     |

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| <b>J-1</b>  | <b>Proposed Settlement Expenses</b> |                     |
| <b>Version 4.26, dated March 2018</b>   |                                     | <b>WP Reference</b> |
| 1. Analyze the items proposed for settlement expenses and test check to supporting data.  |                                     |                     |
| 2. Consider the possibility of duplication through indirect cost and/or G&A allocations.  |                                     |                     |
| 3. Settlement expenses are incurred after termination, and profit is not applicable (See CAM 12-307 a. and FAR 49.202(a)).  |                                     |                     |
| 4. For settlement proposals on the total cost basis and for settlement proposals for cost reimbursement contracts ascertain that no settlement expense activity is claimed in items 1-4 of SF 1436 and 1437. Indirect cost allocated to settlement expense effort is limited to that defined in |                                     |                     |

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| FAR 31.205-42(g). |  |
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| <b>K-1</b>                            | <b>Proposed Settlement With Subcontractors</b>   |  |
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| <b>Version 4.26, dated March 2018</b> | <b>WP Reference</b>  |  |
| 1.                                    | Ascertain whether the Contracting Officer has approved or ratified the amounts of the settlements with subcontractors (FAR 49.108-3 and CAM 12-203). |  |
| 2.                                    | Ascertain that indirect expenses allocated to subcontract proposals are limited to those specified in FAR 31.205-42(h).                              |  |

| <b>A-1</b>                            | <b>Concluding Steps</b>  |  |
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| <b>Version 4.26, dated March 2018</b> | <b>WP Reference</b>  |  |
| 1.                                    | Summarize the audit findings and comment on the acceptability of the contractor's internal controls and the degree to which they were relied on.   |  |
| 2.                                    | Hold an exit conference. Discuss all audit conclusions based on incurred costs with the contractors designated official. For audit conclusions based on estimates of future work, discuss only factual differences. If there are exceptions, obtain the contractors official reaction for inclusion in the audit report (CAM 4-304.2, CAM 4-304.4 and 12-507). |  |
| 3.                                    | Auditors should document and communicate with the contracting officers upon the completion of our audit:   |  |
|                                       | a. Brief the contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues, and/or  |  |
|                                       | b. Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.   |  |
| 4.                                    | Write a draft audit report and complete indexing and cross referencing of working papers. If a requested evaluation or inventory valuation by a specialist was not received, consider whether sufficient audit evidence was obtained and the impact on the audit report.   |  |
| 5.                                    | Provisions in 10 U.S.C. 2306a, known as the "Truth in Negotiations Act" and FAR 15.403-4 Cost or Pricing Data have applicability to  |  |

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| termination actions. If applicable, prepare a defective pricing lead sheet when the proposal was based largely on estimated costs, as opposed to incurred costs, and the associated risks are considered high. |  |
| 6. Update permanent files as necessary.  |  |