

MASTER AUDIT PROGRAM

Activity Code 19500	Cost Impact Statement (Price Adjustment)
B-1 Planning Considerations	Version 6.0, dated July 2020

Type of Service - Attestation Examination Engagement
Audit Specific Independence Determination
Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment. <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 working 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>

Purpose and Scope
This standard audit program assists the audit team in planning and performing the audit of the contractor's cost impact proposal submitted in response to a change in cost accounting practice or the result of a noncompliance (failure to comply with 48 CFR 9904.4XX). Audit procedures will be tailored based on the circumstances surrounding the contractors' submission and should be prepared to determine if proposed amounts comply with contract terms for administering the Cost Accounting Standards under FAR 52.230-6.

Other Planning Considerations
Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.

References
1. CAM 8-500, Audit of Cost Impact Proposals Submitted Pursuant to the Cost Accounting Standards Clause
2. CAS Board Regulations (Especially 9903.201-6 and 9903.306)
3. DoD CAS Working Group Guidance Papers (WG 76-4, 76-5, 76-6, and 76-9)
4. CAS Clauses: FAR 52.230-2, FAR 52.230-3, FAR 52.230-4, FAR 52.230-5, and FAR 52.230-6
5. FAR 30.001 Definitions
6. FAR Subpart 30.6 CAS Administration

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B-1 Preliminary Steps	WP Reference
Version 6.0, dated July 2020	
<p>1. Determine the reason for the proposed cost impact (see clauses below). Review the pertinent disclosure statement (19100) and/or noncompliance (19200) audit report from the permanent file. The auditor should also review the permanent file to ensure the FAO received a copy of the cognizant Federal agency official's (CFAO), final noncompliance determination. If this determination is not contained in the permanent file, obtain a copy before proceeding with the examination.</p> <ul style="list-style-type: none"> • FAR 52.230-2(a)(4)(i). Required change. Equitable adjustment under CAS clause. • FAR 52.230-2(a)(4)(ii) and -2(a)(5). Unilateral change. Government shall pay no increased cost in the aggregate. • FAR 52.230-2(a)(4)(iii) and -3(a)(3)(ii). Desirable change. Change that is not detrimental to the Government made in accordance with 48 CFR 9903.201-6(c). Equitable adjustment under CAS clause. • FAR 52.230-2(a)(5), -3(a)(4), and -4. Noncompliance with CAS or disclosed practice. Government shall pay no increased cost to in the aggregate. 	
<p>2. If the cost impact results from a noncompliance, identify the type of CAS noncompliance at issue (estimating, accumulating, or both).</p> <p><i>Note: An estimating noncompliance is one where the contractor used a noncompliant practice to price contracts, and an accumulating noncompliance is one where the contractor used a noncompliant practice to allocate incurred costs to contracts. Contractors may fail to comply with either a CAS provision or its own disclosed/established practice.</i></p>	
<p>3. Document the timeline of events showing all pertinent dates, such as the effective date of the cost accounting practice change or inception date of the noncompliance, date the noncompliance was corrected (if applicable), the applicability date of the relevant standard (for required changes), the CFAO determination dates, etc. These dates are useful to establish the length of time the cost impact should cover and the time period in which the Government is able to recover increased costs.</p>	
<p>4. Determine if separate impacts for each change or noncompliance have been provided. When multiple changes or noncompliance are involved, separate impacts must be calculated for each change. Separate noncompliances likewise must have separate impacts.</p>	

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B-1 Preliminary Steps	WP Reference
<p>5. Coordinate with the contractor and the CFAO to obtain a walkthrough of the proposal and to gain an understanding of the basis of the proposal and related supporting documentation. As part of this walkthrough, require the contractor to identify any information needed to complete the adequacy review:</p> <ul style="list-style-type: none"> • Description of the change or noncompliance, • Description of the affected CAS-covered contract universe • Description of the basis of estimates and other cost data used to prepare the cost impact proposal • Time period covered by the cost impact proposal • Identification of the personnel who created the cost impact proposal. 	
<p>6. Contact the contracting officer to ascertain any known concerns that will impact the audit and adjust the audit scope and procedures accordingly.</p>	
<p>7. Evaluate the adequacy of the contractor's proposal using the Cost Impact Adequacy Tool at WP B-04. If the submission is not adequate (i.e., will not allow the auditor to consistently evaluate it using the applicable criteria, and obtain sufficient appropriate audit evidence to support an opinion), then document the nature and extent of the inadequacies, advise the CFAO and recommend that an adequate proposal be obtained.</p>	
<p>8. Verify the universe of CAS-covered contracts and subcontracts that will be affected by the change or noncompliance.</p>	
<p>a. Evaluate the adequacy of the contractor's procedures for identifying accurately and completely all contracts and subcontracts covered by CAS.</p>	
<p>b. Perform limited tests of contract listings to assure continuing effectiveness of the contractor's system (using EDA or other source of contract data).</p>	
<p>c. If data about the contractor's affected universe is not available from EDA or other data sources, determine if the CFAO can confirm that the cost impact proposal includes all affected prime contracts and subcontracts.</p>	
<p>9. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <ul style="list-style-type: none"> a. Their knowledge of any actual, suspected, or alleged fraud or noncompliance with laws and regulations affecting the period of time corresponding to the subject matter under audit. (AT-C 205.32) b. Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject matter. (GAGAS 7.14) 	

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B-1 Preliminary Steps	WP Reference
<p>c. The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13)</p> <p><i>Note: Specifically document in the working papers; the inquiries and the corresponding responses as well as how the responses affect the performance of the engagement.</i></p>	
<p>10. 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 material noncompliances, whether due to error or fraud, that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"> • relevant prior audit experience (e.g., questioned cost, relevant reported accounting system deficiencies), • relevant aspects of the contractor and its environment, • risk of material noncompliance due to fraud (e.g., the extent of financial incentives, pressures to meet budgetary and contractual commitments, and opportunities to commit and conceal fraud). Consider the fraud risk factors and scenarios presented in the DoD OIG's webpage: Fraud Detection Resources for Auditors. Copy link and paste into web browser, • other known risk factors identified that could materially affect the subject matter, and • the audit team's understanding of relevant key internal controls. Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect the subject matter, and design audit procedures to respond to the increased risk of material noncompliance. <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of material misstatement and noncompliance due to error or fraud.</p>	

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B-1 Preliminary Steps	WP Reference
<p>11. Review the permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit.</p> <p>a. If there were findings, make a list of prior findings and during the entrance conference, ask the 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.</p> <p>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit in the risk assessment.</p>	

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B-1 Preliminary Steps	WP Reference
<p>12. Review the 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.</p> <p>a. If there are no other studies or audits, document that information in the work papers and perform the procedures below.</p> <ul style="list-style-type: none">• If you find that internal audits were performed, request the contractor to 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.• If you find that 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, have the 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.• If you find that 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, have the 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. <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none">• 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 connection between the internal audit reports and the scope of this specific assignment.• Document the results of the determination in writing.• If the assignment is at a major contractor location, coordinate with the CAD or FAO point of contact (POC) for internal audit reports and request the contractor to provide access to the reports.• If the assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request that the contractor provide access to the internal audit reports.	

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B-1 Preliminary Steps	WP Reference
<ul style="list-style-type: none"> • The request, issued by the CAD, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. A copy of the request will be placed in the administrative work papers. <p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> • Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.). • Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings. <p>d. Document the results of the inquiries including the response received from the contractor for any request for access to internal audit reports. If access was not granted document the contractor's rationale or justification for not granting access.</p> <p>e. Determine if additional audit procedures are needed to respond to identified risk.</p>	
<p>13. During the entrance conference, discuss the cost impact proposal and obtain any additional information or data needed:</p> <p>a. Determine if the contractor is contemplating any modifications to the proposed cost impact. If so, coordinate with the contractor and CFAO to avoid unnecessary audit effort.</p> <p>b. Follow up with contractor management on:</p> <ul style="list-style-type: none"> (1) corrective actions that address previous DCAA audit findings and recommendations (ref Step 11), (2) other studies or audits that impact the subject matter under audit. 	
<p>14. Using the framework and the guidelines in WP B-2, obtain an understanding of the contractor's internal controls that are relevant to the audit. Auditors should be able to obtain a major portion of this understanding during a walkthrough of the subject matter under audit.</p>	
<p>15. Coordinate the audit report due date with the CFAO based on the results of preliminary audit steps. Request technical assistance regarding the evaluation of estimates to complete, if needed.</p>	
<p>16. Prepare and issue an acknowledgment memorandum to the CFAO regarding the audit in accordance with CAM 4-104.</p>	
<p>17. Prepare and issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3</p>	

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C-1 Change In Accounting Practice	WP Reference
Version 6.0, dated July 2020	
1. Examine the basis of the contractor's direct costs and indirect rates used in the cost impact proposal. Analyze and document the contractor's assumptions and methodology for developing the cost estimates used, and determine whether those assumptions and methods are logical and will produce a reasonably accurate estimate of the cost impact	
2. For changes to accounting practices, verify the completeness of the cost impact proposal. Ensure that:	
a. All contracts and subcontracts that were priced/awarded under the prior cost accounting practice are included in the cost impact proposal.	
b. The cost impact extends through the performance period of all applicable CAS-covered contracts.	
c. For changes required to implement a new standard, verify that only those contracts and subcontracts awarded prior to the standard's effective date are included in the proposal.	
3. Perform a yearly reconciliation of the anticipated business base as identified in forward pricing or other relevant contractor estimates, to the direct costs in the cost impact proposal. This provides a check on the contractor's calculations and should reveal any impact resulting from changes other than the identified change in accounting practice (e.g., increased efficiency). Add additional audit steps if necessary.	
a. For GDM proposals, this can be accomplished at the contract-type level by comparing the cost impact proposal to the contractor's business base estimates used in their forward pricing estimates. <i>Note: the contractor's estimates of fixed and flexible business base used in the most recent forward pricing should be consistent with those in the GDM..</i>	
b. For detailed cost impact proposals, this should be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	
4. Examine the assumptions used by the contractor in the cost impact proposal for estimates to complete. Determine if the contractor's estimated costs to complete approximate the dollar value remaining on those contracts (i.e., if the ETC for a contract is \$200M, is the remaining dollar value of the contract also approximately \$200M or does the ETC vary significantly from the value?). If the ETCs do not accurately reflect remaining contract value, the cost impact proposal will not be accurate.	
a. For GDM proposals, this can be accomplished would be done at the contract-type level.	
b. For detailed cost impact proposals, this should be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	

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C-1 Change In Accounting Practice	WP Reference
5. Verify the proposed cost impact calculations on a sampling of contracts and subcontracts. The following 5-step process (steps a through e) should be used to calculate audit recommended cost impacts.	
a. For each CAS-covered contract selected for evaluation, compute the increase/decrease in cost estimates or cost accumulations due to the accounting practice change as follows:	
(1) Calculate the difference between the estimated cost to complete (ETC) using the old accounting practice and the ETC using the new accounting practice, from the date of the change to the end of the period of performance of all affected contracts.	
(2) Consider the impact on negotiated profit and fee for the selected CAS covered contracts.	
b. Combine the increases / (decreases) in cost accumulations and/or contract prices within each contract group (Flexibly-Priced and Fixed Price).	
c. Calculate the increased / (decreased) cost paid by the Government for each contract group, using the net impact on cost accumulations or contract prices from step b. above. <ul style="list-style-type: none"> • For flexibly priced contracts: Increased costs to the Government occur when more costs are accumulated as the result of an accounting practice change. Conversely, decreased costs to the Government occur when fewer costs are accumulated as a result of an accounting practice change. • Fixed price contracts: Increased costs to the Government occur when fewer costs are accumulated as a result of an accounting practice change. Decreased costs to the Government occur when more costs are accumulated as a result of an accounting practice change. 	
d. Combine the increased and decreased costs to the Government (including profit/fee) for all contract groups (Flexibly-Priced and Fixed Price) to determine the aggregate increased or decreased costs paid by the Government as a result of the accounting practice change.	
e. Considering the settlement alternatives available to the CFAO, develop recommendations which will identify appropriate alternatives to the Government.	
f. In the case of a unilateral change the recommendations must identify appropriate alternatives to preclude payment by the Government of the aggregate increased costs (CASB Regulations 9903.201-6(b) and 9903.306)	

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D-1 Noncompliance - Price Adjustment	WP Reference
Version 6.0, dated July 2020	
1. Examine the basis of the contractor's direct costs and indirect rates used in the cost impact proposal. Analyze and document the contractor's assumptions and methodology for developing the cost estimates used, and determine whether those assumptions and methods are logical and will produce a reasonably accurate estimate of the cost impact.	
2. For noncompliances, verify that the cost impact was computed from the date the noncompliance first occurred until the date the noncompliance was corrected.	
3. <i>Estimating Noncompliance.</i> Evaluate whether the impact CAS-covered fixed-type contracts/subcontracts negotiated during the period of noncompliance is included in the cost impact proposal for an estimating noncompliance. Determine if the noncompliant/compliant estimates in the cost impact proposal include all affected contracts priced during the period of noncompliance by comparing the forecasted business base to the recorded business base. Add additional audit steps if necessary.	
a. For GDM proposals, this can be accomplished at the contract-type level.	
b. For detailed cost impact proposals, this should be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	
4. <i>Accumulating Noncompliance.</i> Evaluate whether the impact on CAScovered flexibly priced contracts/subcontracts performed during the period of noncompliance is included in the cost impact proposal for an accumulating noncompliance. Determine if the noncompliant/compliant cost accumulations include all affected contracts performed during the period of noncompliance. Add additional audit steps if necessary.	
5. Verify the proposed cost impact calculations on a sampling of contracts and subcontracts. The following 5-step process (steps a through e) should be used to calculate audit recommended cost impacts.	
a. For each CAS-covered contract selected for examination, compute the increase/decrease in cost estimates or cost accumulations due to the noncompliance as follows:	
(1) For noncompliances in cost accumulation: Calculate the difference between costs accumulated using the noncompliant accounting practice and costs that would have been accumulated had a compliant practice been used for flexibly priced CAS covered contracts. This calculation should include only the periods during which the contractor accumulated costs using the noncompliant practice.	

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D-1 Noncompliance - Price Adjustment	WP Reference
(2) For noncompliances in cost estimating: Calculate the difference between the contract price estimated/negotiated using the noncompliant practice and what the contract price would have been had a compliant practice been used for all CAS covered contracts.	
(3) Consider the impact on negotiated profit and fee for all CAS covered contracts.	
b. Combine the increases / (decreases) in cost accumulations and/or contract prices within each contract group (Flexibly-Priced and Fixed Price).	
c. Calculate the increased / decreased cost for each contract group, using the net impact on cost accumulations or contract prices from step b. above. Keep in mind the following:	
<ul style="list-style-type: none"> • Flexibly priced contracts: Increased costs to the Government occur when more costs are accumulated as the result of a CAS noncompliance. Decreased costs to the Government occur when fewer costs are accumulated as a result of a CAS noncompliance. • Fixed price contracts: Increased costs to the Government occur when higher costs were estimated and negotiated as a result of a noncompliant estimating practice. Decreased costs to the Government occur when fewer costs were estimated and negotiated as a result of a noncompliant estimating practice. 	
d. Combine the increased and decreased costs to the Government (including profit/fee) for all contract groups (Flexibly Priced and Fixed Price) to determine the aggregate increased or decreased costs paid by the Government as a result of the CAS noncompliance.	
e. Considering the settlement alternatives available to the CFAO, develop recommendations which will identify appropriate alternatives to preclude payment by the Government of the aggregate increased costs [9903.201-6(d) and 9903.306]. The recommendations should include comments on the applicability of interest which is required by FAR 52.230-2(a)(5).	

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A-1 Concluding Steps	WP Reference
Version 6.0, dated July 2020	
1. Prepare the draft report in accordance with CAM Chapter 10.	
2. Obtain supervisory review of the draft report and supporting documentation.	
3. After obtaining supervisory review and approval, communicate with the contracting officer(s) upon the completion of our audit: <ul style="list-style-type: none"><li data-bbox="264 478 1179 548">• Brief the contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues;<li data-bbox="264 569 1187 674">• Coordinate with the contracting officer to determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.	
4. Finalize the audit report, including all documentation.	
5. Update the permanent files.	