

**REVIEW OF TERMINATION SETTLEMENT PROPOSAL ADEQUACY  
FIXED INVENTORY BASIS**

**References:**

- CAM 12-200 Section 2 - General Audit Guidance for Termination of Negotiated Contracts
- CAM 12-300 Section 3 - Auditing Terminations of Fixed-Price Contracts
- Audit Program 17100 – Termination, Fixed Inventory Basis
- FAR 49.1 – General Principles
- FAR 49.2 – Additional Principles for Fixed-Price Contracts Terminated for Convenience
- [Frequently asked questions](#)

Item No.	Adequacy Consideration	Adequate	Notes
1	Is this an initial or revised submission? If it is an initial submission, go to Item 2. If the submission is a revision/update to the termination proposal, has the contractor explained the reasons for the update and identified the changes between the original submission and the new revision/update?		
2	Does the proposal identify the location and point of contact supporting this audit?		
3	Does the proposal contain the required SF 1439, Schedule of Accounting and Information? (FAR 49.206-1(e) and 49.602-3)		

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4	<p>Does the proposal contain termination inventory?</p> <p>If yes, has the company included the information on the SF 1428 (or electronic equivalent) or entered the inventory information into the Plant Clearance Automated Reutilization Screening System (PCARSS) (obtain copy of PCARSS)? (FAR 49.206-3 and DFARS 252.245-7004(b))</p> <p>Note: If the contract contains the deviation to DFARS 252.245-7004(b) the contractor is required to use the Procurement Integrated Enterprise Environment (PIEE) Government Furnished Property Plant Clearance Capability (GFP-PCC) instead of PCARSS (Defense Acquisition Regulation System (DARS) Tracking Number: 2022-O0006).</p>		
5	<p>Is there a properly signed and completed termination settlement proposal using SF 1435? (FAR 49.206-2(a) and FAR 49.602-1(a))</p>		
6	<p>Does the proposal contain information on the total indirect expenses on SF 1435, Schedule A, Column 4?</p>		
7	<p>Do the amounts for the SF 1435, Section II, line 1, "Metals" trace back to the inventory totals on the SF 1428?</p>		
8	<p>Do the amounts for SF 1435, Section II, line 2, "Raw Materials (<i>other than metals</i>)" trace back to the totals on the SF 1428?</p>		
9	<p>Do the amounts for SF 1435, Section II, line 3, "Purchased Parts" trace back to the supporting accounting schedules, to include transaction level universe details by year (SF 1428)?</p>		

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10	Do the amounts for SF 1435, Section II, line 4, "Finished Components" trace back to the supporting accounting schedules, to include transaction level universe detail by year (SF 1428 and the SF 1435's Schedule A)?		
11	Do the amounts for SF 1435, Section II, line 5, "Miscellaneous Inventory" trace back to the supporting accounting schedules, to include transaction level universe detail by year (SF 1428)?		
12	Do the amounts for SF 1435, Section II, line 6, "Work-In-Process" tie to the totals on the SF 1428 and the SF 1435's Schedule A?		
13	Do the amounts for SF 1435, Section II, line 7, "Special Tooling and Special Test Equipment" tie to the totals on the SF 1432 or other supporting detail schedules?		
14	<p>Do the amounts for SF 1435, Section II, line 8, "Other Costs" total tie to the details on page 2, Schedule B of this form?</p> <p><i>Notes: "Item" can be unamortized tooling, pre-production costs, set-up costs, engineering, royalties, severance pay, travel costs, etc.</i></p> <p><i>"Explanation" should provide details substantiating items of other costs (see FAR 31.205-42).</i></p>		
15	<p>Do the amounts for Section II, line 9, "General and Administrative Expenses" reconcile to the total as detailed on page 2, Schedule C of this form?</p> <p>In Schedule C the contractor should indicate the rates and amounts to which it is applied, provide details of the composition of the G&amp;A costs and the method of application to the entire business base to the substantiate rate.</p>		

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16	Is the amount in Section II, line 10, "Total" mathematically correct?		
17	<p>Do the amounts for Section II, line 11, "Profit" total tie to the detailed total on page 2, Schedule D of this form?</p> <p><i>Note: In Schedule D the contractor should explain the method for calculating profit. Also, they should furnish an estimate of the costs required to complete the terminated portion of the contract. In no event will the Government pay for the loss of anticipatory profits. (FAR 49.202)</i></p>		
18	<p>Do the amounts for Section II, line 12, "Settlement Expense" total tie to the detailed totals on page 3, Schedule E of this form?</p> <p><i>Note: In Schedule E the contractor should list "Items" that would have not been incurred if not for the termination. Examples may include material, handling, clerical costs, etc.—see FAR 31.205-42(g). The contractor should provide these details and include a basis of estimate or an explanation for all judgmental factors and the methods used to estimate proposed settlement expenses, including those used in projecting from known data.</i></p>		
19	Is the amount in Section II, line 13, "Total" mathematically correct?		

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20	<p>Does the proposal contain an explanation for the amount on Section II, line 14, “Settlement with Subcontractors” on Page 3, Schedule F of the proposal form?</p> <p>Do the subcontractor settlement costs include both unpaid operating expenses and FAR 31.205-42 (g) post termination settlement expenses?</p> <p><i>Note: Schedule F applies only to uncompleted subcontracts unsettled at the time of termination. The subcontractors must submit termination proposals to the prime contractor in the same manner that the prime must submit to the Government. Subcontract termination proposals should be listed in this schedule and submitted with supporting documentation for each subcontract settlement (copy of purchase order, subcontract settlement proposal or subcontract; subcontractor inventory schedules, schedule of accounting information (not required if proposal is &lt;\$10,000 and SF 1438 Short Form used) and the prime contractor settlement memorandum which explains the rationale for the subcontract settlement) for review and approval by the Termination Contracting Officer (TCO) prior to payment (see FAR 49.108 and FAR 49.206-1).</i></p>		
21	<p>Do the amounts for Section II, line 15, “Acceptable Finished Product” trace to inventory totals and supporting accounting schedules (detailed on the SF 1428, and the SF 1435’s Schedule A at contract price)?</p>		

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22	Is the amount in Section II, line 16, "Gross Proposed Settlement" mathematically, correct?		
23	<p>Does the proposal contain an explanation for the amount on Section II, line 17, "Disposal and Other Credits" on Page 3, Schedule G on the proposal form?</p> <p>Does Schedule G reconcile to Section II, line 17, "Disposal and Other Credits"?</p> <p><i>Note: Schedule G -- Except for the retention of the costs or return to the contractor's supplier for credit, the contractor is encouraged to extend an offer for the residual items as presented on the inventory schedules. Retained inventory should be at full cost, purchases for salvage purposes are at a negotiated price, or they should be disposed of in a manner determined by the TCO to be most favorable to the Government. In this Schedule, the contractor may provide details for their offer. Maximum effort should be made to divert terminated inventory to other work and or return it to suppliers for full credit less reasonable restocking charge based cost.</i></p>		
24	Is the amount in Section II, line 18, "Net Proposed Settlement" mathematically correct?		

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25	<p>Does the proposal have an explanation for the amount on Section II, line 19, “Advance, Partial and Progress Payments”, on Page 4, Schedule H of the proposal form?</p> <p>Does Schedule H reconcile to Section II, line 19, “Advance, Partial and Progress Payments”?</p> <p><i>Note: Contract should list any progress payments or advance payment made against the contract in Schedule H.</i></p>		
26	Is the amount in Section II, line 20, “Net Payment Requested” mathematically correct?		
27	Is the proposal adequate? If not, list the inadequacies and indicate when information was requested. If so deficient that an audit cannot be performed DCAA should consider recommending to the TCO that they return the proposal to the contractor.		

Additional Discussion:		
Item	Initial Assessment	Corrective Action


**Frequently asked questions ([Return](#)):**

**1. What is the purpose of the settlement proposal adequacy tool?**

The objective of the adequacy tool is to assist the auditor in determining if the settlement proposal is adequate to audit. In addition, there are “Notes” included to help the auditor in identifying issues to consider during the risk assessment. Do not consider the “Notes” in determining adequacy of the proposal.

**2. What method might the auditor use to gather the information needed?**

To facilitate the adequacy assessment, the auditor should attend the contractor’s walkthrough of the proposal, if possible, with the TCO in attendance to gain an understanding of the basis and related supporting documentation. Require the contractor to provide any information needed to complete the adequacy review promptly.

**3. What actions should auditors take if they find significant inadequacies?**

Return proposals that are inadequate for audit to the contractor through the TCO, describing the specific deficiencies. The TCO may request the audit team to perform an audit on the settlement proposal to the extent possible or provide an advisory service, such as providing the cost information from the contractor’s books and records related to the contract.