

**REVIEW OF TERMINATION SETTLEMENT PROPOSAL ADEQUACY
FIXED TOTAL COST 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 Total Cost 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	Did the Termination Contracting Officer (TCO) approve the use of the Total Cost method for the Termination Settlement Proposal? (FAR 49.206-2(b)) <i>Note: The Inventory method is the preferred approach. The cost method requires the TCO's approval. However, complete termination of construction or lump-sum professional services contract is required to use the total cost basis. When the total-cost basis is used under a partial termination, the settlement proposal shall not be submitted until completion of the continued portion of the contract.</i>		
3	Does the proposal identify the location and point of contact supporting this audit?		

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4	Does the proposal contain the required SF 1439, Schedule of Accounting and Information? (FAR 49.206-1(e) and 49.602-3)		
5	<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 49.303-2 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 the PCARSS (Defense Acquisition Regulation System (DARS) Tracking Number: 2022-O0006).</p>		
6	Is there a properly signed and completed termination settlement proposal using SF 1436? (FAR 49.206-2(b) and FAR 49.602-1(b))		
7	Does the amount for Section II, line 1, "Direct Material" tie to the supporting accounting schedules, to include transaction level universe details by year?		
8	<p>Does the amount for Section II, line 2, "Direct Labor" tie to the detail schedule?</p> <p>The contractor should provide a breakout of the labor costs at the lowest transaction level detail.</p>		

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9	<p>Does the proposal contain an explanation for the amount on Section II, line 3, “Indirect Factory Expense” on Page 2, Schedule A of the proposal form?</p> <p>Does Schedule A reconcile to Section II, line 3, “Indirect Factory Expense”?</p> <p>In Schedule A the contractor should note the rates and amounts to which they apply and provide details of the composition of the Indirect Factory Expense Costs and the method of application to the entire business base to substantiate the rate.</p>		
10	<p>Does the proposal contain a supporting inventory schedule (SF 1428) for the amount on Section II, line 4, “Special Tooling and Special Test Equipment”?</p> <p>Does the inventory schedule reconcile to Section II, line 4, “Special Tooling and Special Test Equipment”?</p>		
11	<p>Does the proposal contain an explanation for the amount on Section 11, line 5, “Other Costs” on Page 2, Schedule B?</p> <p>Does Schedule B reconcile to Section II, line 5, “Other Costs”?</p>		

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12	<p>Does the proposal contain an explanation for the amount on Section II, line 6, “General and Administrative Expenses” on Page 2, Schedule C?</p> <p>Does Schedule C reconcile to Section II, line 6, “General and Administrative Expenses”?</p> <p>In Schedule C the contractor should note the rates and amounts to which they apply and provide details of the composition of the General and Administrative (G&A) costs and the method of application to the entire business base to substantiate the rates.</p>		
13	<p>Is the amount in Section II, line 7, “Total Costs” mathematically correct?</p>		
14	<p>Does the proposal contain an explanation for the amount on Section II, line 8, “Profit” on Page 2 Schedule D of the proposal form?</p> <p>Does Schedule D reconcile to Section II, line 8, “Profit”?</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 a loss of anticipatory profits. (FAR 49.202)</i></p>		
15	<p>Is the amount in Section II, line 9, “Total Costs” mathematically correct?</p>		
16	<p>Is the amount in Section II, line 10, “Deduct Finished Product Invoiced or to be Invoiced” mathematically correct?</p>		
17	<p>Is the amount in Section II, line 11, “Total” mathematically correct?</p>		

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18	<p>Does the proposal contain an explanation for the amount on Section II, line 12, "Settlement Expenses" on Page 3, Schedule E of the proposal form?</p> <p>Does Schedule E reconcile to Section II, line 12, "Settlement Expenses".</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 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>Does Schedule F reconcile to Section II, line 14, Settlement with Subcontractors”.</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 <\$10,000 and SF 1438 Short Form used), and the prime contractor settlement memorandum which explains the rationale of the subcontract settlement) for review and approval by the TCO prior to payment (see FAR 49.108 and FAR 49.206-1).</i></p>		
21	<p>Is the amount in Section II, line 15, “Gross Proposed Settlement” mathematically correct?</p>		

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22	<p>Does the proposal contain an explanation for the amount on Section II, line 16, "Disposal and Other Credits" on Page 3, Schedule G of the proposal form?</p> <p>Does Schedule G reconcile to Section II, line 16, "Disposal and Other Credits".</p> <p><i>Note: Schedule G -- The contractor is encouraged to extend an offer for the residual items as presented on your inventory schedules. Inventory should be retained at full costs, purchases for salvage purposes at a negotiated price, or 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 the suppliers for full credit less reasonable restocking charge-based cost.</i></p>		
23	<p>Is the amount in Section II, line 17, "Net Proposed Settlement" mathematically correct?</p>		
24	<p>Does the proposal contain an explanation for the amount for Section II, line 18, "Advance, Progress & Partial Payments" on Page 4, Schedule H of the proposal form?</p> <p>Does Schedule H reconcile to Section II, line 18, "Advance, Progress & Partial Payments".</p>		
25	<p>Is the amount in Section II, line 19, "Net Payment Requested" mathematically correct?</p>		

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.