

References:

- CAM 12-200 Section 2 - General Audit Guidance for Termination of Negotiated Contracts

- CAM 12-400 Section 4 - Auditing Terminations of Cost-Type Contracts
- Audit Program 17100 – Termination, Cost Contracts
- FAR 49.1 – General Principles
- FAR 49.3 – Additional Principles for Cost-Reimbursement Contracts Terminated for Convenience
- [Frequently asked questions](#)

| Item No. | Adequacy Consideration | Adequate | Notes |
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| 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 49.602-3) | | |
| 4 | Does the proposal contain termination inventory? If yes, has the company included the information on the SF 1428 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)) | | |

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| 5 | Is there a properly signed and completed termination settlement proposal using SF 1437? (FAR 49.302(a) and 49.602-1(c)) | | |
| 6 | Does the amount in line item 1, "Direct Material" tie to the supporting accounting schedules, to include transaction level details by year? | | |
| 7 | Does the amount in line item 2, "Direct Labor" tie to the supporting direct labor reports, to include transaction level detail by year? | | |
| 8 | Does the amount in line item 3, "Indirect Factory Expense" tie to the supporting schedules to include transactional level details by year? Does the proposal identify the indirect rates used in the supporting files? | | |
| 9 | Does the amount in line item 4, "Special Tooling and Special Test Equipment" tie to the supporting schedules, to include transaction level details by year? | | |
| 10 | Does the amount in line item 5, "Other Costs" tie to the supporting schedules, to include transactional level details by year? Does the proposal segregate "Other Costs" by subcategory? | | |
| 11 | Does the amount in line item 6, "General and Administrative Expenses" tie to the supporting schedules, to include transactional level details by year? Does the proposal identify the General and Administrative (G&A) rates used in the supporting files? | | |
| 12 | Is the amount in line 7, "Total Costs" mathematically correct? | | |

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| 13 | <p>Does line 8, "Fee" tie to the supporting schedules and only apply to lines 1 thru 6?</p> <p><i>Note: The contractor should explain their method for calculating fee/profit. In no event, will the Government pay for loss of anticipatory profits or fee on settlement expenses.</i></p> | | |
| 14 | <p>Does line 9, "Settlement Expenses" tie to the supporting schedules by cost element?</p> <p>If estimates to complete are used and they use judgmental factors, are the judgmental factors explained?</p> <p><i>Note: The contractor should break out by cost element for the 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> | | |

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| 15 | <p>Does line 10, "Settlement with Subcontractors" tie to the supporting schedules?</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: Settlement with subcontractors' line 10 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 Settlement Proposal (Short Form) used), 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).</i></p> | | |
| 16 | Is the amount in line 11, "Gross Proposed Settlement" mathematically correct? | | |
| 17 | Does line 12, "Disposal and Other Credits" tie to the supporting schedules? | | |
| 18 | Is the amount in line 13, "Net Proposed Settlement" mathematically correct? | | |

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| 19 | Does line 14, "Prior Payments to the Contractor" tie to the supporting schedules? | | |
| 20 | Is the amount in line 15, "Net Payment Requested" mathematically correct? | | |
| 21 | 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: | | |
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| Item | Initial Assessment | Corrective Action |
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Frequently asked questions:

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.

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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 report 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.

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