

MASTER AUDIT PROGRAM

Activity Code 19413		CAS 413.50(c)(12) Segment Closing Adjustments
Version 5.1, dated Feb 2025		
B-1	Planning Considerations	
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>		
NOTE: This assignment must be tailored to the requirements of each evaluation, based on the treatment of pension assets/liabilities attributable to the closed segment. In almost all cases, the evaluation of pension cost in connection with segment closings will be accomplished as a joint effort between DCAA and DCMA. Accordingly, the audit steps performed should reflect a mutual understanding between the CIPR team chief, the lead Insurance/Pension Specialist, the auditor, and the supervisor as to the scope required to meet Government Auditing Standards, and DCMA and DCAA objectives for the pension evaluation assignment.		
Purpose and Scope		
The purpose of this evaluation is to determine whether the contractor has properly calculated the amount of pension assets and liabilities attributable to the closed segment as the basis for measurement of the adjustment to previously determined pension cost required under CAS 413.50(c)(12). The contractor’s accounting for pension assets/liabilities must comply with the measurement and allocability requirements of Cost Accounting Standards 412 and 413, and must be allocable, reasonable, and allowable per the applicable provisions FAR Subpart 31.2. DCAA and DCMA have a joint responsibility for the audit/review of pension cost; thus, the scope should be established accordingly.		
The audit steps cover the key aspects of accounting for pension assets and liabilities for segment closings, benefit curtailments and plan terminations. Full implementation of the audit steps requires (1) knowledge of the basic concepts of pension accounting, (2) familiarity with actuarial terminology, (3) understanding of CAS 412, 413, and FAR 31.205-6(j) requirements, and (4) knowledge of pension accounting principles in FASB Statement Nos. 87 and 88 and related Interpretations. The team members should have a full understanding of the contractor's system of accounting for pensions and the methods used for funding and allocation of pension costs.		

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The standard steps are not intended to be all inclusive. However, the review/audit steps listed are considered necessary, if applicable, to provide an unqualified opinion on the contractor's

compliance with CAS 413.50(c)(12). The review/audit should be supplemented as necessary to cover additional areas unique to individual segment closings.

Pre-planning Team Meeting

The DCMA/DCAA team members will coordinate on the nature and objectives of the audit/review, noting any specific requirements. DCAA is responsible for performing contract audit responsibilities related to CAS. The team will also identify any audit/review steps necessary to satisfy specific information requested by the cognizant Federal agency official (CFAO), who is usually the ACO. The team will then prepare a consolidated data request for the contractor, listing the data and documents necessary to accomplish the joint audit/review objectives. The team will decide which team member or agency will issue the final report to the CFAO.

Reporting CIPR Results

Each agency will perform their portion of the CIPR program, however, only one CIPR report will be issued to the CFAO. The CIPR report will normally be issued by the team leader and incorporate the results of the other team member's report and include it as an attachment.

Other Planning Considerations

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

References

1. FAR 31.205-6(j) - Pension Costs
2. FAR 52.216-7 - Allowable Cost and Payment Clause
3. FAR 52.232-16 - Progress Payments
4. CAS 412 - Composition and Measurement of Pension Cost
5. CAS 413 - Adjustment and Allocation of Pension Cost
6. DCMA Guidebook, located under "eBusiness" at <https://www.dcma.mil/eBUSINESS/http://www.dcma.mil>
7. Internal Revenue Code Section 414 - Regulation 1.414(l)-1 - Mergers and Consolidation of Plans or Transfers of Plan Assets
8. Employee Retirement Income Security Act of 1974 (ERISA)

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9. Generally Accepted Actuarial Practices and Procedures as Promulgated by the Actuarial Standards Board
10. FASB 87 & 88
11. Contractor Asset Purchase/Sales Agreement (if applicable)
12. CAM Appendix B, Specialist Assistance
13. Selected Areas of Cost Guidebook, Chapter 53 - Pensions

B-1	Preliminary Steps	Responsible Agency	WP Reference
Version 5.1, dated Feb 2025			
1.	Consider CAM 8-412, CAM 8-413, and Chapter 53 of the Selected Areas of Cost guidebook and subsequent Headquarters' guidance, memorandums and regional instructions.	DCAA	
2.	Contact the contracting officer to ascertain any known concerns (including risk related to the contractor's financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor's financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-306.1c(2) and (3). If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.	DCAA	
3.	Notify the appropriate contracting officer of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.	DCAA	
4.	Consider DCMA Guidebook and subsequent DCMA guidance memorandums.	DCMA	
5.	Evaluate information in the permanent pension file, or obtain, the following:	DCMA / DCAA	
	a. Provisions of the pension plan(s) and early retirement plans.	DCMA / DCAA	
	b. Audit & CIPR reports on contractor's pension costs.	DCMA / DCAA	

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c. Contractor's CAS Disclosure Statement(s). [Note: During the performance of the detailed audit steps, auditors should determine that actual practices are consistent with disclosed practices.]	DCMA / DCAA	
d. Actuarial reports.	DCMA / DCAA	
e. DOL/IRS Form 5500, including Schedules A & SB (or MB, if applicable) for actuarial information.	DCMA / DCAA	
f. Pension Trust's annual report.	DCMA / DCAA	
g. Written summary of contractor's pension accounting and funding practices and statistics of pension costs allocated to Government contracts.	DCMA / DCAA	
h. Contractor's internal and independent auditors' reports on pension plan activities.	DCMA / DCAA	
i. Contract clauses and advance agreements on pension cost (when applicable).	DCMA / DCAA	
j. Information in memorandums of negotiation covering pension costs.	DCMA / DCAA	
(Note: This information should be updated in the permanent file during or at the conclusion of the audit)		
<p>6. Review permanent file to determine if previous audits included findings and recommendations that relate to the subject matter. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures:</p> <p>a. 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.</p> <p>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter.</p>	DCAA	

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<p>7. 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. If there are no other studies or audits, document that information in the working papers and perform the procedures below.</p> <p>a. 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</p>	DCAA	
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<p>understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.</p> <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 nexus between the internal audit reports and the scope of this specific assignment. • Document the results of the determination in writing. • If assignment is at a major contractor location, coordinate with the CAD or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports. • 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. • The request 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 working 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 this should include 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>8. Obtain and document an understanding of contractor internal controls relevant to the audit. Auditors may obtain a significant portion of this understanding during the walkthrough.</p>	<p>DCMA / DCAA</p>	

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<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 205.33)b. If any specialists (internal or external) were used in the preparation of the subject matter. If yes, have the contractor explain how the specialists were used in the preparation of the subject matter. (AT-C 205.16)c. 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)d. 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><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>		
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<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 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, • the audit team's understanding of relevant key internal controls. <p>Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect</p>	DCAA	
<p>the subject matter, and design audit procedures to respond to the increased risk of material noncompliance.</p> <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of misstatement and noncompliance due to error or fraud..</p>		
<p>11. Perform risk assessment and establish scope by designating the detailed audit/review steps identified below to be performed by each DCMA/DCAA team member. Supplement the detailed audit steps with any additional audit steps necessary.</p>	DCMA / DCAA	
<p>12. Coordinate with division CFAO/FAO(s) and request any assistance necessary for calculation of the segment closing adjustment. Obtain copy of final sales/purchase agreement if applicable.</p>	DCMA / DCAA	
<p>13. Attend the entrance conference with the contractor. If applicable, include a follow up with contractor management on:</p> <ul style="list-style-type: none"> • corrective actions that address previous DCAA audit findings and recommendations, • other studies or audits that impact the subject matter under audit. 	DCMA / DCAA	

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14. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	DCAA	
15. If the segment closing involved the transfer of pension assets/liabilities to buyer contractor, prepare a detailed summary of the current pension issues for the CAD/FAO that has assumed responsibility for the pension evaluations. The summary should include data on the funding status of the plan and any information from the sales agreement on the disposition of the acquired pension plan.	DCMA / DCAA	
16. In the event that the sales agreement or other documentation indicate that the buyer contractor plans to merge the plan, the assuming FAO and CFAO should be notified and determine the buyer's compliance with CAS 413.50(c)(3), i. e., if the ratio of assets to actuarial liabilities of the plans prior to merger are materially different, the pension cost must be accounted for on a segmented basis.	DCMA / DCAA	

C-1	Qualified Defined Benefit Plans	Responsible Agency	WP Reference
Version 5.1, dated Feb 2025			
1. If a segment is closed due to sale or transfer of ownership:			

a. Examine the sales/purchase agreement and identify provisions addressing the treatment of pension assets and liabilities for the divested segment.	DCAA Lead	
b. Evaluate terms of sales agreement and identify any potential CAS/FAR issues that should be addressed.	DCMA / DCAA	
2. In the event of a segment closing or curtailment of benefits, evaluate contractor's calculation of the Actuarial Liability using the following steps:		
a. Determine date of event that triggered requirement for calculation of CAS 413.50(c)(12) adjustment.	DCAA	
b. Determine that the calculation of the liability was made as of the date of the event that triggered the segment closing or curtailment of benefits (CAS 413.50(c)(12)(iii)).	DCMA	
c. Verify that the calculation of the actuarial liability was made using the accrued benefit cost method, i.e., no projections for future salary increases (CAS 413.50(c)(12)(i)).	DCMA	

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d. Determine that actuarial assumptions employed are consistent with the current and prior long term assumptions used in measurement of pension costs (CAS 413.50(c)(12)(i)).	DCMA Lead	
e. Analyze pension plan changes and verify that increased liabilities due to plan improvements adopted within 60 months of the segment closing date are prorated over a 60 month period (CAS 413.50(c)(12)(iv)).	DCAA Lead	
f. Determine that the liability used in calculating the pension adjustment does not include any prior unfunded costs, or other previously disallowed costs.	DCAA Lead	
g. Determine if the calculation of the actuarial liability for the closed segment was based on the proper census data applicable to plan participants, including both active and retired employees.	DCMA	
h. Ascertain whether the segment closing triggered the payment of early retirement benefits. If so, verify that increased liabilities are computed in accordance with plan provisions and allocated based on causal/beneficial criteria.	DCAA Lead	
3. Evaluate the contractor's calculation of the market value of trust fund assets allocated to the closed segment using the following steps:		
a. For contractors using composite accounting, verify that a portion of the undivided assets are allocated to the closed	DCMA	

segment in accordance with requirements of CAS 413.50(c)(5)(i) or 413.50(c)(5)(ii) using the following steps:		
(1) Determine if data is readily determinable so that the market value of trust fund assets can be allocated to the closed segment based on the actual amount of funds contributed on behalf of the segment, adjusted for investment return and decreased for expenses and benefits paid from such funds (CAS 413.50(c)(5)(i)).	DCMA	
(2) If the data is not readily determinable, verify market value of fund assets are allocated based on the ratio of the closed segment's actuarial liability to the plan's total actuarial liability (CAS 413.50(c)(5)(ii)).	DCMA	

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(3) Verify that the market value of assets is as of the date of the event (e.g., contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits or as of the date agreed on by the contracting parties (CAS 413.50(c)(12)(iii)).	DCAA	
(4) If assets are allocated pursuant to CAS 413.50(c)(5)(ii), ensure that the actuarial cost method used to calculate the liability is consistent with method or methods used to compute prior years' pension costs.	DCMA	
(5) If the information necessary to determine actual contributions is determinable for only a few years prior to the closing, verify that the contractor used the CAS 413.50(c)(5)(ii) methodology to initially allocate assets to the earliest year for which information is available and thereafter brought the assets forward in accordance with provisions prescribed in 413.50(c)(7) (CAS 413.50(c)(5)(ii)).	DCMA	
b. For contractor's that use segment accounting and have separately accounted for pension assets by segment, determine the accuracy of the segment's asset value by tracing the asset values to actuarial reports and trust statements. Asset values should be on the date of the segment closing.	DCAA	
c. For contractors using either composite or segment accounting, perform the following steps:	DCMA	
(1) Determine if the assets allocated to the segment are adjusted upward for the remaining balance of any unfunded liability that was separately identified and	DCMA	
maintained pursuant to the requirements of CAS 413.50(c)(12)(ii).		
(2) Determine if there is a shortage of allocated assets due to lost earnings resulting from contractor's failure to fund pension costs on a quarterly basis. If there is a shortage, adjust the asset value to assure the calculated adjustment does not include recovery of the unallowable amount.	DCMA	
(3) Verify that the market value of trust fund assets has been reduced by the accumulated value of prepayment credits, if any (CAS 413.50(c)(12)(ii)).	DCAA	

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(4) Determine if there is a shortage of trust fund assets due to withdrawal of pension assets for payment of other employee benefits unless authorized by an advance agreement in accordance with FAR 31.205-6(j)(2)(v).	DCAA	
(5) Determine if there is a shortage of trust fund assets due to contractor's retention of unfunded liabilities related to previously closed commercial segments.	DCAA	
4. Determine if the contractor retained all or a portion of the pension assets and liabilities of the closed segment. If so, verify that calculation of the pension adjustment includes all retained pension assets and liabilities attributable to the closed segment including both active and inactive plan participants (CAS 413.50(c)(12)(v)).	DCAA	
5. Determine if the agreement to retain the liability for accrued benefits provide for payment of benefits based on future salary increases. If so, question any increased liability due to projected salary escalation.	DCAA Lead	
6. Determine the contractor's prior practice of accounting for pension assets and liabilities attributable to previously closed commercial/ Government segments, if any.	DCAA	
7. Determine if unfunded liabilities from prior years closed commercial segments were not allocated to Government contracts.	DCAA	
8. Determine if there has been any mass transfer or migration of employees among segments in prior years that would have a material impact on calculation of the segment closing adjustment. If so, adjust the assets/liabilities to reflect impact on calculation of the adjustment amount.	DCAA Lead	
9. Evaluate the contractor's calculation of the Government's share of the adjustment amount to ensure that it reflects the Government's historical participation in contributions to the pension plan for a representative period as required by CAS 413.50(c)(12)(vi).	DCAA	
10. If an adjustment is due to contractor's termination of a defined benefit plan:		
a. Verify that the actuarial liability is determined by amounts paid participants and insurers to irrevocably settle all benefit obligations (CAS 413.50(c)(12)(i)).	DCAA Lead	
b. Determine if the Government's share of any reversionary assets is computed in accordance with the formula prescribed in CAS 413.50(c) (12)(vi).	DCAA Lead	

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11. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	DCAA	
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D-1	Non-Qualified Defined Benefit Plans	Responsible Agency	WP Reference
Version 5.1, dated Feb 2025			
1. For a contractor that has any nonqualified defined benefit plans in which the pension costs allocated to Government contracts were measured and assigned using accrual based accounting, perform the following steps:			
a. Obtain and verify schedule from contractor of the amount of pension cost accruals assigned and allocated to the closed segment since plan inception.	DCAA Lead		
b. Calculate the amount of unfunded pension cost (imputed assets) based on the difference between the accrued amount and the amount of benefits paid to retirees/ beneficiaries.	DCAA		
c. Add the value of the imputed assets determined in step “b” above to the amounts funded and accumulated value of permitted unfunded accruals as determined under the applicable CAS rules.	DCAA Lead		
d. Verify that the contractor calculated the actuarial liability using the accrued benefit cost method, i.e., no projected salary increases.	DCMA		
2. Determine if the Government’s share of the adjustment amount is based on historical participation in pension costs accrued for non-qualified plans.	DCAA		
3. Compute any prior years adjustments due to CAS noncompliances, advance agreements and transition adjustments.	DCAA		
4. Reconcile the accrued cost for non-qualified plans with actuarial reports.	DCAA		
5. Verify segment closing adjustments for corporate and home office salaried employees are allocated to cost objectives using the same base that the contractor’s pre-closing pension cost accruals were allocated.	DCAA Lead		
6. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	DCAA		

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A-1	Concluding Steps	Responsible Agency	WP Reference
Version 5.1, dated Feb 2025			
1.	Summarize and document the results of the audit. Discuss the findings with the CIPR team members and develop a unified Government position.	DCMA / DCAA	
2.	<p>Discuss the audit results with the supervisor and, if applicable the technical specialist. Coordinate significant or unusual issues with the CFAO, FAO Manager, and if applicable, with the CAD network (see CAM 8-302.4, 8-302.6). Coordination should be both before and after discussion of audit results with the contractor. The CFAO should be apprised of noncompliance matters at the earliest possible date.</p> <p><i>Note: If a noncompliance is considered less than material, but could become material if circumstances change, notify the contractor and contracting officer in writing, as appropriate (e.g., in a memorandum, via e-mail, or in the report appendix). The written notification will include a Statement of Condition and Recommendation (SOCAR) and provide those charged with governance (the contractor and contracting officer) with sufficient information to understand the condition and the severity of the CAS noncompliance. The only exception to issuing a memorandum is if the audit report includes a material noncompliance(s). When a material noncompliance is reported, the less than material noncompliance will be reported in a separate appendix to the report titled "Noncompliance that Warrants Attention of those Charged with Governance." Reference to the appendix for the less than material noncompliance will be in the Executive Summary, but will not be included in the Basis of Opinion section, as it is not a material noncompliance.</i></p>	DCMA / DCAA	
3.	Prepare draft report (and memorandum, if applicable) If the audit scope was limited to a certain area(s) of the contractor's accounting practices, modify the subject matter stated in the Report On (from WP A-01) and Opinion (from WP A) section of the report, as necessary, so that they clearly identify the limited areas audited.	DCMA / DCAA	
4.	If a material weakness or system deficiency is detected during this audit, ensure that the findings have been fully developed to determine if a material weakness or system deficiency in compliance with the DFARS 252.242-7006 Accounting System, DFARS 252.215-7002 Estimating System, or DFARS 252.242-7004 Material Management and Accounting System criteria exists. If so, open a Business System Deficiency assignment	DCAA	

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(Activity Code 11090) to report the deficiency and submit it to the contractor for comment.		
5. Hold an exit conference with the contractor and provide a draft report (and memorandum, if applicable) to the contractor for comments in accordance with CAM 4-304. With CFAO and CIPR approval, the Insurance/Pension Specialist's draft report will also be provided for comment. Obtain supervisory review, and management review if required, of the working papers and draft audit results section of the audit report (and memorandum, if applicable) before discussion with the contractor.	DCMA / DCAA	
6. Finalize the audit report (and memorandum, if applicable) incorporating the contractor's reaction and auditor's response, if applicable. Provide copy of final audit report to each team member or agency. .	DCMA / DCAA	
7. Complete the administrative working papers.	DCAA	
8. The team leader will follow up on CIPR recommendations with the CFAO and provide supplemental assistance.	Team Leader	
9. Update the permanent files. <i>Ensure that a copy of DMIS Report No. CAS 3 entitled "CAS Compliance Testing (Activity Code 194XX)" is included in the permanent file after the assignment has been closed in DMIS.</i>	DCAA	
10. Submit the working paper package and draft report (and memorandum, if applicable) to the supervisor/manager for final review and processing.	DCAA	