

MASTER AUDIT PROGRAM

Activity Code 17100	Termination, Cost Contracts
Version 7.0, dated July 2020	
B-1	Planning Considerations
Type of Service - Attestation Examination Engagement	
Audit Specific Independence Determination	
<p>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.</p>	
<p><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></p>	
Purpose and Scope	
<p>This standard audit program assists the audit team in planning and performing the audit of termination settlement proposals on cost type contracts to evaluate the proposal for its compliance with FAR Part 31 and 49, as well as applicable CAS provisions. The objective of the termination audit is to develop information and documentation to serve as a basis for reporting to the Termination Contracting Officer (TCO) the allowable costs, settlement expenses, and fee under the terminated contract, based on the contractor's proposal and supporting records. The program steps should be tailored, as appropriate. The auditor should adjust the audit program based on the documented risk assessment and reflect an understanding within the audit team as to the scope required.</p>	
Planning Considerations	
<p>1. Audit procedures for reviewing costs claimed on a terminated cost-type contract are essentially the same as those established for an incurred cost audit. The settlement expenses require action to assure proper adjustment for indirect type expenses proposed as a direct cost of the termination settlement. A fully terminated contract usually requires a final settlement proposal for billed costs and fee. A partially terminated contract is usually limited to fee adjustment.</p>	
<p>2. If this is an audit of a terminated subcontract proposal, coordinate with the TCO and DCAA office cognizant over the higher-tier contractor to ensure that the Government will derive a benefit for performing an audit of any subcontract termination settlement proposals under the threshold for obtaining certified cost or pricing data. For subcontract proposals over the threshold for obtaining certified cost or pricing data coordination is also necessary to obtain relevant information and consider the impact of any reviews performed by DCAA or the higher-tier contractor on the subcontractor settlement proposal.</p>	
<p>3. If this is an audit of a terminated subcontract, determine at the start of the audit whether the subcontractor will have any restrictions or reservations on the release of the audit report to the higher-tier contractor. If so, promptly notify the TCO or appropriate contracting authority to determine whether the settlement proposal audit should be continued. The TCO, working with</p>	

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the higher-tier contractor, may be able to remove the subcontractor's restrictions or reservations. Follow the guidance in CAM 10-210.4 if the audit is completed at the request of the TCO, despite the subcontractor's restrictions or reservations.
4. Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.
References
1. DoD CAS Working Group Guidance 77-15
2. CAM Chapter 12 (Auditing Terminated Contracts)
3. FAR Part 49 – Termination of Contracts
4. FAR 31.205-42 – Termination Costs
5. CAM Appendix B, " Specialist Assistance"

B-1	Preliminary Steps	WP Reference
Version 7.0, dated July 2020		
1.	<p>Review the audit request for any special requirements. Communicate with the requestor as soon as practical.</p> <ul style="list-style-type: none"> a. Confirm your understanding of the expectations and discuss any specific concerns. b. Discuss the requestor’s planned termination timeline. c. Request a copy of the termination notice issued to the contractor and determine if they have held the termination conference. If the conference has not yet occurred, request an invitation to attend. If the conference has occurred, request copies of the minutes if available. d. Discuss any special instructions, prior approvals or agreements with the contractor that may impact the audit. e. Discuss whether the requestor has planned or already requested technical evaluations (e.g., Inventory Verification) and/or audits of subcontractor settlement proposals. If requested, determine the scope of the request, the work performed and modify the audit program accordingly. f. If any unsettled indirect costs are material and the audit team is unable to design procedures sufficient to opine on these costs, discuss if the requestor is willing to wait for the applicable indirect rates to be settled or plans to use the authority under FAR 49.303-4 to settle the indirect termination costs. Document their response and adjust the audit scope accordingly. g. Requests for audit of parts of a proposal, except as provided under FAR 49.303-4, should be extremely rare because the termination constitutes the final action to close the contract. Coordinate such 	

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<p>requests with the Region/CAD Technical Specialist as needed to recommend expanded audit coverage. Elevate any unresolved differences between the requested services and the audit team's assessed risk to the Region/CAD.</p> <p>h. Discuss with the TCO whether the audit scope should include steps to determine if the fee calculation is per contract terms or if this will result in a duplication of effort with the requestor.</p>	
<p>2. Examine the adequacy of the settlement proposal and supporting schedules using the Settlement Proposal (Cost-Reimbursement Type Contracts) Adequacy Tool. Note any areas requiring further consideration and adjust the audit program accordingly.</p>	
<p>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 letter once the risk assessment is complete. The acknowledgement process should be performed in accordance with the procedures in CAM 4-104.</p>	
<p>4. Coordinate with the contractor and obtain a walkthrough of the termination settlement proposal to gain an understanding of the basis of each cost element of the proposal (or part(s) of the proposal), the related supporting documentation, and the relevant policies/procedures and processes related to significant cost elements. Invite the TCO.</p> <p>As part of this walkthrough, request the contractor to identify:</p> <ul style="list-style-type: none"> a. If the cutoff is in accordance with the termination notice or promptly upon receipt. For items not terminated in a timely manner, obtain an understanding of the basis. b. If the termination notice was issued to all subcontractors in a timely manner. If not, obtain and document the contractor's explanation for not providing timely notification. c. If the termination settlement proposal contains costs already covered by an equitable adjustment proposal or claim (CAM 12-103). If so, have the contractor identify these costs and request a copy of the equitable adjustment proposal. 	
<p>5. 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 	

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<p>respect to the period of time corresponding to the subject matter. (GAGAS 7.14)</p> <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>6. Obtain the contractor-prepared contract brief. If the contractor has not adequately briefed the contract, brief the contract for any special/significant contract terms or provisions that impact the reimbursement or allowability of costs incurred (e.g., specified unallowable costs, cost limitations, funding ceilings, cost sharing clauses, etc.). Pay particular attention to the termination clause, First Article Approval clause and other clauses in Section H included in the contract. Document the impact, if any, on the audit scope from items discovered from the contract brief.</p>	
<p>7. Review permanent files, CAS disclosure statement (if applicable), contractor policies and procedures for the year(s) under audit, and any prior related audits (e.g., business system deficiency reports, CAS audits, DCMA purchasing system review, paid voucher reviews, etc.) to identify potential audit leads or inconsistent treatment of similar costs to be considered in establishing the audit scope.</p>	
<p>8. Review the permanent file to determine if previous audits included findings and recommendations related to the subject matter under audit. 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. (GAGAS 7.13)</p> <p>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit.</p>	
<p>9. 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>	

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<p>If there are no other studies or audits, document that information and perform the procedures below.</p> <ol style="list-style-type: none">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 understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.b. If the review of the perm file or the contractor identifies relevant internal audits:<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 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, request the contractor provide access to the internal audit reports.• The request, issued by the FAO POC or auditor, 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 work papers.c. If the review of the perm file or the contractor identifies relevant other audits or studies:<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.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).e. Determine if additional audit procedures are needed to respond to any identified risk.	
<p>10. Determine the extent to which the termination settlement proposal includes costs previously audited. Consider the impact on the audit scope and document the reliance on any specific audit work previously performed.</p>	

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<p>11. Review SF 1439 Schedule of Accounting Information and determine if accounting practices applied to the proposal deviate from disclosed or established accounting procedures. Discuss deviations, if any, with the contractor and consider the impact on the audit scope.</p>	
<p>12. Obtain and document an understanding of the contractor's settlement proposal and its processes for developing the proposal (or part(s) of the proposal) using the framework of WP B-2.</p> <ul style="list-style-type: none"> • Obtain and document an understanding of the underlying processes related to the specific cost areas (e.g., the basis of the costs and from where the numbers/amounts are derived) that we selected for detailed testing based on materiality. • Document assessment of control risk. • Document the reliance that can be placed on computerized data. <p>A major portion of this understanding may be obtained during the initial walkthrough of the contractor's proposal and subsequent walkthrough of specific processes as needed.</p>	
<p>13. If applicable and final indirect cost rates are not available, perform analytical procedures (comparative analysis and trend analysis) for indirect costs. Adjust the audit scope based on the determined risk from the analysis performed.</p>	
<p>14. Evaluate adjusting journal entries and exception reports made just prior to effective date of termination and those subsequent thereto with a retroactive effect. Identify adjustments requiring further examination and explanation (e.g., reclassification of post-termination costs/settlement expenses (non-fee bearing) to performance costs (fee bearing)). Seek explanations and add steps to the applicable working paper section to address adjustments requiring further examination.</p>	
<p>15. Review contractor and/or Government correspondence files pertaining to the terminated contract/purchase order and make excerpts of pertinent information.</p>	
<p>16. Determine if the award includes FAR clause 52.215-23, Limitations on Pass-Through Charges (or Alternate I). If applicable, modify WP E-01 to add steps to evaluate the contractor's compliance with FAR 52.215-23 (or 52.215-23 Alternate I).</p>	
<p>17. Determine the extent to which the proposal includes inter-organizational or affiliated company charges. Perform an initial assessment of significance to identify and request necessary assist audits (WP B-3).</p> <p><i>Note: Question excess charges resulting from pricing inter-organizational transactions inconsistently with the provisions of FAR 31.205-26.</i></p>	
<p>18. Determine whether assistance is needed to evaluate subcontractor costs contained in the proposal. Determine whether the TCO has requested an</p>	

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<p>audit of the subcontractor. If not, coordinate with the TCO to request any necessary audits.</p>	
<p>19. Assess the need for technical assistance based on the understanding of the basis of estimate, supporting documentation available and planned detailed audit steps. Document the assessment and prepare a detailed request for specialist assistance if required.</p>	
<p>20. 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, Technical Specialist 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 estimating or accounting system deficiencies), • relevant aspects of the contractor and its environment • risk of material noncompliance due to fraud (e.g., 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 factors, that increase the risk of material noncompliance with laws and regulations, and • 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 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 material misstatement and noncompliance due to error or fraud.</p>	
<p>21. Review and discuss with your supervisor the overall results of the risk assessment and the planned audit scope, including the detailed audit steps. Make any further adjustments to the audit program steps necessary to obtain sufficient evidence to provide a reasonable basis for the conclusion that will be expressed in the audit report. Finalize the milestone plan.</p>	
<p>22. Obtain and document supervisory approval of the risk assessment, the planned scope of examination for each audit area documented in WP B and the -01 WPs.</p>	

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<p>23. Send a final acknowledgement memorandum to the contracting officer and a notification letter to the contractor to formally notify them of the audit and expected completion date in accordance with CAM 4-104 and CAM 4-302.3.</p>	
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C-1	Direct Material (SF 1437 Line 1)	WP Reference
Version 7.0, dated July 2020		
1.	Reconcile the costs in the proposal that have previously been audited with the contractor's books and audited costs	
2.	Perform material testing procedures as required, to opine on the material cost.	
a.	Trace material charges to vendor invoices, purchase orders, and the contractor's books and records.	
b.	Perform procedures to test to payment.	
c.	Determine if cash discounts or rebates were deducted from invoice price or otherwise credited to contracts on an equitable basis.	
d.	Determine if material handling charges and similar expenses are excluded from indirect expense allocations if included in material prices. Ensure the material handling is not included on the SF 1437 Line 1 and Line 6.	
e.	Determine if materials were required for the contract, purchased at a prudent price, used on the contract, and properly accounted for as to initial charge, transfer in or out, and residual value.	
3.	<p>Termination Inventory - Obtain a copy of the Inventory Verification Survey (SF 1423) and Inventory Disposal Report (SF 1424) from the TCO to assist in evaluating the reasonableness and allocability of the assigned termination inventory. Requests to the TCO should be made in accordance with CAM Appendix B-107.</p> <p><i>Note: Government technical personnel (external specialists) have primary responsibility for verifying inventory quantities, quality, and physical applicability (FAR 45.602).</i></p> <p>If the SF 1423 is not available, perform alternative procedures to verify the accuracy of the proposed inventory. Such procedures may include:</p> <ul style="list-style-type: none"> • If available, obtain the contractor-submitted Inventory Disposal Schedule (SF 1428) from the TCO to assist in evaluating the accuracy and reasonableness of the assigned termination inventory. DFARS 252.245-7004(b) requires contractors to submit the SF 1428 into the Plant Clearance Automated Reutilization Screening System (PCARRS). The SF 1428 is allowed to contain estimates. 	

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<ul style="list-style-type: none"> • Perform substantive testing of inventory items for physical count and allocability to the terminated contract. (SF 1423 Line 6, 16, 18a, 18b, and 19) • Determine if any portion of undelivered termination inventory has been lost or so damaged as to become undeliverable (normal spoilage is expected, as is inventory for which the Government has expressly assumed the risk of loss). Question the costs if the contractor cannot account for the undelivered termination inventory. (SF 1423 Line 6 and 12) <p>If procedures cannot be performed to obtain sufficient appropriate evidence related to the termination inventory, consider the materiality and determine if reporting a scope limitation is necessary.</p>	
<p>4. Inventory Items Generally Unallowable – Review composition of termination inventory to determine existence and allowability of the following items:</p>	
<p>a. Common items. Material that can be diverted to other work without loss to the contractor should be identified and questioned. (CAM 12-304.5 and SF 1423 Line 16)</p>	
<p>b. Material acquired prior to date of contract. This item is ordinarily not allowable except under certain circumstances. Ascertain reasons for including in inventory and determine its validity. (CAM 12-304.3)</p>	
<p>c. Material acquired or produced in unreasonable anticipation of delivery schedule requirements. (CAM 12-304.4 and SF 1423 Line 18a)</p>	
<p>d. Material items that could be used on other work or returned to suppliers. Identify and question the cost less supplier's restocking charge, transportation, and handling charges (CAM 12-304.8 and SF 1423 Line 14).</p>	
<p>e. Material received subsequent to termination. Examine receiving reports and question any substantial shipments by suppliers after notice of effective date of termination. (SF 1423 Line 17)</p>	
<p>f. If included in the contract, review the first article approval clause (FAR 52.209-3 or FAR 52.209-4) to determine if it allows the Contracting Officer, by written authorization, to authorize the Contractor to acquire specific materials or components or to commence production to the extent essential to meet the delivery schedules (specifically Alternate II). Until first article approval is granted, only costs for the first article and costs incurred under this authorization are allocable to this contract. If Government approval of the first article was not obtained, question production costs of items other than the first article or authorized in writing by the Contracting Officer. (SF 1423 Line 18a and 19)</p>	

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<p>g. Evaluate the contractor's rationale for costs incurred after termination date.</p> <p><i>Generally, only costs associated with termination activities are allowable after the effective date of the termination. FAR 31.205-42(b) allows the contractor to recover post-termination costs (assuming costs meet other allowability criteria) if the costs cannot reasonably be discontinued immediately after notice of termination.</i></p>	
<p>5. Verify that any questioned direct material costs also considers directly associated costs that should be excluded/questioned (FAR 31.201-6(a)).</p>	
<p>6. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.</p>	

D-1	Direct Labor (SF 1437 Line 2)	WP Reference
Version 7.0, dated July 2020		
1.	Reconcile the costs in the proposal that have previously been audited with the contractor's books and audited costs	
2.	Perform testing of direct labor costs for allowability, allocability, and reasonableness. Determine if testing to payment is necessary, and document rationale why it is not necessary, or add steps to ensure adequate testing is performed.	
3.	<p>Evaluate the contractor's rationale for costs incurred after termination date.</p> <p><i>Note: Generally, only costs associated with termination activities are allowable after the effective date of the termination. FAR 31.205-42(b) allows the contractor to recover post-termination costs (assuming costs meet other allowability criteria) if the costs cannot reasonably be discontinued immediately after notice of termination.</i></p>	
4.	Verify that any questioned direct labor costs also considers directly associated costs that should be excluded/questioned (FAR 31.201-6(a)).	
5.	Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

E-1	Indirect (Indirect Factory Expense (SF 1437 Line 3) and General and Administrative Expense (SF 1437 Line 6))	WP Reference
Version 7.0, dated July 2020		
Techniques for auditing indirect cost pools and indirect cost allocations are discussed in CAM Chapter 6, Section 6.		
1.	Review the contract and the applicable modifications for contract-specific indirect cost/rates. If the contract specifies indirect cost/rates, compare the	

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<p>proposed indirect cost/rates to the contract and request explanations for variances.</p>	
<p>2. If indirect rates are not specified in the contract, evaluate the reasonableness of the contractor's method and base period for the allocation of indirect expenses. Verify that the base(s) properly: (i) reflects the appropriate cost accounting period; and (ii) allocates indirect cost to final cost objectives commensurate with the benefits received (CAM 6-606 and 6-610.2).</p>	
<p>3. If the contractor's indirect costs for the years applicable to the proposal have previously been negotiated, verify the contractor used the negotiated rates. If the indirect costs have been audited but not negotiated, incorporate the results of the audited rates into this audit.</p>	
<p>4. If the contractor's indirect costs have not been audited and the TCO requires the indirect rate(s) be audited, perform the following procedures or determine if there is a need to qualify the report if the rates will not be audited.</p>	
<p>a. Indirect Account Analysis (CAM 6-608.2c). Perform transaction testing on accounts such as critical or sensitive accounts, new accounts, and accounts with large variances to obtain sufficient, appropriate evidence to support an opinion on allowability, allocability, and reasonableness of these costs. Determine if testing to payment is necessary.</p>	
<p>b. Indirect Allocation Bases. Evaluate the contractor's indirect cost allocation base(s) for equity and consistency and compliance with generally accepted accounting principles, FAR 31.203(c) and CAS 410 and 418, if applicable. Verify that the base(s) properly: (i) reflect(s) the appropriate cost accounting period; and (ii) allocates indirect cost to final cost objectives commensurate with the benefits received (CAM 6-606 and 6-610.2).</p>	
<p>c. Cost of Money. If the submission includes cost of money rates, compare the amounts on the CASB-CMF form, Facilities Capital Cost of Money Factors Computation, to source documents and verify the accuracy of the contractor's calculations.</p> <ul style="list-style-type: none"> • Verify claimed cost of money complies with the provisions of CAS 414 (if applicable) and FAR 31.205-10. • Verify the contractor used the same base to allocate the other expenses included in the cost pool. • Verify the contractor used applicable cost of money rate for that fiscal year (CAM 8-414.2). 	
<p>5. Determine if costs for functions normally charged indirect and reclassified as direct for this termination are excluded from indirect allocations. Items charged indirect according to a contractor established or disclosed practice</p>	

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may be properly charged as direct costs under Settlement Expenses in a termination settlement proposal.	
6. Determine if terminated inventory excludes indirect costs not properly allocable because of the completion stage of the terminated inventory (e.g., packing, shipping, and inspection).	
7. Determine if proposed post-termination costs exclude unabsorbed costs - CAM 12-305.7b (e.g., occupancy costs that would have been allocated to the contract if not terminated are not allowable as costs continuing after termination). <i>(Note: The Armed Services Board of Contract Appeals has held that unabsorbed overhead is related to the contractor's existence as an ongoing organization and is not a continuing cost of a terminated contract; further the Government is not a guarantor of the contractor's continuing overhead nor is such intended by the language in the termination clause.)</i>	
8. Verify that any questioned indirect costs also consider directly associated costs that should be excluded/questioned (FAR 31.201-6(a)).	
9. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

G-1	Other Costs (SF 1437 Line 5)	WP Reference
Version 7.0, dated July 2020		
1.	If the costs are for contractor year(s) that have previously been audited, reconcile the terminated costs with the contractor's books and audited costs.	
2.	Perform testing of other costs for allowability, allocability, and reasonableness. Determine if testing to payment is necessary. Additional audit guidance is provided in CAM 12-305.	
3.	Evaluate the contractor's rationale for costs incurred costs after termination date. <i>Generally, only costs associated with termination activities are allowable after the effective date of the termination. FAR 31.205-42(b) allows the contractor to recover post-termination costs (assuming costs meet other allowability criteria) if the costs cannot reasonably be discontinued immediately after notice of termination.</i>	
4.	Verify that any questioned other direct cost also considers directly associated costs that should be excluded/questioned (FAR 31.201-6(a)).	
5.	Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

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H-1	Fee (SF 1437 Line 8)	WP Reference
Version 7.0, dated July 2020		
1.	Brief the contract for specific fee payment (award fee, incentive fee, fixed fee) arrangement.	
2.	Evaluate the proposed fee amount and if multiple fee types are proposed separate the fee amounts for compliance with contract terms. Fee should be adjusted based on what is stated in contract. The contractor's adjusted fee shall not include an allowance for fee for subcontract effort included in subcontractors' settlement proposals. (FAR 49.305-1(a)(3) and CAM 12-403)	
a.	For Cost-Plus-Award-Fee (CPAF) Contract – Review the terms of the award fee plan (in contract) and request all fee determining official (FDO) documents (typically letters) showing amount awarded for each event. Reconcile FDO awarded amounts to the contractor's records and proposed fee amount.	
b.	For Cost-Plus-Incentive-Fee (CPIF) Contract – Review the terms of the incentive fee plan (in contract) and request all FDO documents (typically letters) showing amounts awarded for each event. Reconcile FDO awarded amounts to the contractor's records and proposed fee amounts. See FAR 49.115(b) – Settlement of Terminated Incentive Fee Contracts.	
3.	Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

I-1	Proposed Settlement Expenses (SF 1437 Line 9) (Includes Cost Continuing After Termination)	WP Reference
Version 7.0, dated July 2020		
1.	Reconcile the incurred costs claimed to the contractor's books and records. Reconcile claimed estimated future costs to the supporting documentation.	
2.	Perform testing of proposed settlement expenses for allowability, allocability, and reasonableness. Determine if testing to payment is necessary. <i>Note: FAR 31.205-42(e) defines the types of costs comprising Settlement Expenses. They frequently include other items such as initial costs, Worker Adjustment and Retraining Notification (WARN), severance pay, rental costs on unexpired leases, legal costs, travel costs, or other costs continuing after termination (CAM 12-305). The loss of useful value on special tooling, special machinery and equipment, or special test equipment may also be claimed as settlement costs.</i>	

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3. Determine if indirect costs allocated to settlement expense effort comply with the limits defined in FAR 31.205-42(g).	
4. Verify that no settlement expenses are claimed in Lines 1 through 6 of SF 1437.	
5. Verify fee is not applied to settlement expenses. Settlement expenses are incurred after termination, and fee is not applicable (CAM 12-403 and 12-307a).	
6. Verify that any questioned settlement costs also consider directly associated costs that should be excluded/questioned (FAR 31.201-6(a)).	
7. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

J-1	Proposed Settlement With Subcontractors (SF 1437 Line 10)	WP Reference
Version 7.0, dated July 2020		
1.	Obtain and evaluate contractor support demonstrating prompt termination, unless directed otherwise by the TCO, of all subcontractors to the extent that they relate to the performance of the terminated prime work.	
2.	Evaluate the basis of proposed settlements with subcontractors.	
a.	If subcontract settlement amount is based on “Judgments and Arbitration award” determine compliance with FAR 49.108-5 for allowability.	
b.	For subcontractor settlements at \$100,000 or less, determine if the TCO has given written authorization to the prime contractor to conclude settlement of subcontract termination and obtain prime contractor documentation for settled subcontracts. If the TCO did not provide authorization for subcontract settlement, determine the need for evaluation. See FAR 49.108.4 - Authorization for Subcontract Settlements without Approval or Ratification for details.	
c.	For subcontractor settlements over \$100,000, determine if the TCO examined and approved subcontractor settlement proposals (FAR 49.108-3 and CAM 12-203). If approved, obtain the TCO’s written notification of approval and coordinate with the TCO to determine if further evaluation is needed. If settlement proposals were examined but not approved, contact the TCO to discuss concerns, obtain written notifications and determine the need for evaluation.	
3.	Determine whether the settlement costs with subcontractors are properly classified as performance cost or settlement expense.	

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4. Determine if indirect expenses allocated to subcontract proposals are limited to those specified in FAR 31.205-42(h).	
5. Incorporate the results of any subcontractor assist audits. (Include in exhibit under Line 10 of the SF 1437.)	
6. Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

K-1	Miscellaneous (Disposal and Other Credits (SF 1437 Line 12), Prior Payments to Contractor (SF 1437 Line 14) and Miscellaneous Steps	WP Reference
Version 7.0, dated July 2020		
1.	Disposal and Other Credits (SF 1437 Line 12) - Review the supporting documentation for the proposed disposal and other credits to determine if the proposed credits are consistent with the amounts approved by the plant clearance officer. (FAR 45.602-1(c))	
2.	Prior Payments to Contractor (SF 1437 Line 14) - Reconcile the prior payments to the contractor's books and records. Verify the amounts to vouchers (SF 1034) and other supporting documentation.	
3.	If the contract includes the Limitation of Cost (FAR 52.232-20) or the Limitation of Funds (FAR 52.232-22) clause (CAM 12-408), determine questioned costs under the termination settlement proposal as follows:	
	<ul style="list-style-type: none"> a. Quantify the allowable proposed contract costs and the allowable settlement expenses. b. Determine prior allowable contract costs not included in the termination settlement proposal. c. Calculate the total allowable costs by adding the allowable proposed contract costs and settlement expenses (step (1)) and prior allowable contract costs (step (2)). d. Ascertain the total amount of funds allotted to the contract including any revisions to the original contract funding. e. Compare the total allowable costs (step (3)) to the total funds allotted to the contract (step (4)). Question any allowable costs that exceed the funding limitation. f. Total questioned costs are the sum of unallowable proposed contract costs and unallowable settlement expenses and costs in excess of the funding limitation (step (5)). 	
4.	Summarize the results including the conclusions, basis of proposed cost, and audit evaluation.	

MASTER AUDIT PROGRAM

A-1	Concluding Steps	WP Reference
Version 7.0, dated July 2020		
1.	Summarize and document the audit results. In developing the summary of proposed and questioned cost by major cost element for WP A, auditors are reminded that only the parts of the proposal that were subject to audit shall be presented in the summary schedules/exhibits. Note: "Parts of a proposal" audits should be rare as addressed in WP B-01, Steps 1f. and g.	
2.	Obtain supervisory/management review and approval of the working papers and draft audit report before discussion with the contractor.	
3.	Communicate with the TCO upon completion of the audit:	
a.	Brief the TCO on significant questioned, unresolved costs or other significant and/or complex findings/issues.	
b.	Coordinate with the TCO to determine if inclusion of detailed explanatory notes in the report would serve a useful purpose when there are no findings.	
4.	After management approval, conduct and document an exit conference with contractor representatives in accordance with procedures specified in CAM 4-304. Discuss audit conclusions based on incurred costs. For audit conclusions based on estimates of future work, discuss only factual differences.	
5.	Complete the administrative working papers.	
6.	Update permanent files as appropriate.	
7.	Update the draft audit report to incorporate the exit conference, contractor's reaction, and auditor's response. Submit the working papers and draft audit report to the supervisor/manager for final review and processing.	