

MASTER AUDIT PROGRAM

Activity Code 19412	Incurred Pension Cost and CAS 412 and 413 Compliance
B-1 Planning Considerations	Version 7.0, dated Feb 2023

Type of Service - Attestation Examination Engagement
Audit Specific Independence Determination
Members of the audit team and internal specialist 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>
This assignment must be tailored to the requirements of each evaluation, based on the type of pension plan involved, the actuarial cost method used by the contractor for defined benefit plans, CIPR risk assessment, prior CIPR coverage, etc. In almost all cases, CIPRs 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 members and their supervisors as to the scope required to meet Government auditing standards and DCMA/DCAA objectives for the pension review/audit assignment. In cases where the audit risk is low and the auditor does not need the assistance of the DCMA pension specialist to meet Government auditing standards, the audit program should be tailored. The auditor should add or modify steps as appropriate, but should not delete standard audit program steps. For those steps deemed unnecessary, the auditor should line out the step using the strikethrough option and include a brief explanation why the step is not necessary directly below the lined out step or in a separate working paper as necessary.

Purpose and Scope
1. The purpose of this evaluation is to determine whether a contractor's pension costs incurred on Government contracts meet the measurement and allocability requirements of Cost Accounting Standards (CAS) 412 and 413, and are allocable, reasonable, and allowable per the applicable provisions of Federal Acquisition Regulation (FAR) Subpart 31.2. Employee Stock Ownership Plans (ESOPs) are not included in this evaluation because ESOPs that meet the definition of a pension plan are subject to CAS 415 requirements. When pension costs are viewed as part of a total compensation audit, additional reasonableness considerations may arise which are not addressed by this program.

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Purpose and Scope
2. The steps in the joint review/audit are intended to cover all aspects of pension accounting under various actuarial cost methods used to fund and cost employer pension plans. Full implementation of the audit steps requires (a) knowledge of the basic concepts of pension accounting; (b) familiarity of actuarial terminology; and (c) understanding of CAS 412, 413, and FAR 31.205-6(j) requirements. The CIPR team members should have a full understanding of the contractor's pension plan provisions and methods used for funding and paying pension benefits.
3. The standard audit steps are not intended to be all inclusive. However, the audit steps listed are considered necessary, if applicable to the plan being audited, to provide an unqualified opinion on plan costs. The program should be supplemented as necessary to cover additional pension areas unique to individual contractors.
Pre-planning Team Meeting
The DCMA/DCAA team members will coordinate on the nature and objectives of the audit/review, noting any specific requirements and select a team leader. DCAA will be responsible for performing contract audit responsibilities related to CAS. The team will also identify and assign a team member responsible for performing any audit 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 to 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 team leader will normally issue the CIPR report 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 Agency 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 http://www.dcmamail.com
7. Employee Retirement Income Security Act of 1974 (ERISA)
8. Current Periodicals and Publications (e.g. Wyatt Company Survey)

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References
9. FASB Statement No. 88 -- Employer's Accounting for Settlement and Curtailments of Defined Benefit Pension Plans and Termination Liabilities.
10. Internal Revenue Code Section 412--Regulations 1.412(c)(2)-1--Valuation of Plan Assets; Reasonable Actuarial Valuation Methods.
11. Actuarial Standards Board Recommendation No. 4, Measuring Pension Obligations.
12. CAM Appendix B, Specialist Assistance
13. Selected Areas of Cost Guidebook, Chapter 53 - Pensions

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B-1 Preliminary Steps	Responsible Agency	WP Reference
Version 7.0, dated Feb 2023		
1. Consider DCMA Guidebook, CAM 8-412, CAM 8-413, 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 that will impact the audit and adjust the audit scope and procedures accordingly.	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. 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. Special CIPR/Audit reports and related working papers on contractor's pension cost.	DCMA / DCAA	
c. Contractor's CAS Disclosure Statement(s).	DCMA / DCAA	
d. Actuarial reports.	DCMA / DCAA	
e. DOL/IRS Form 5500 with attachments including Schedule A and other schedules as required (see Quick Reference Chart of Form 5500, Schedules, and Attachments at www.dol.gov).	DCMA / DCAA	
f. Funding agency agreement.	DCMA / DCAA	
g. Pension Trust's annual report.	DCMA / DCAA	
h. Written summary of contractor's pension accounting and funding practices and statistics of pension costs allocated to Government contracts.	DCMA / DCAA	
i. Contractor's internal and independent auditors' reports on pension plan activities.	DCMA / DCAA	
j. Corporate Federal tax return Form 1120, Schedules M-1, M-3 and B.	DCMA / DCAA	

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B-1 Preliminary Steps	Responsible Agency	WP Reference
k. Contract clauses and advance agreements on pension cost (when applicable).	DCMA / DCAA	
l. Information in memorandums of negotiation covering pension costs.	DCMA / DCAA	
m. SEC Forms 10-K and 10-Q (noting any FAS/CAS pension reconciliations provided), including shareholder proxies.	DCMA / DCAA	
(Note: This information should be updated in the permanent file during or at the conclusion of the audit)		
<p>5. 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. (GAGAS 7.13)</p> <p>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter.</p>	DCAA	
6. 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.	DCAA	

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<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 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>	DCAA	
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B-1 Preliminary Steps	Responsible Agency	WP Reference
7. 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.	DCAA	
<p>8. 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>	DCAA	

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B-1 Preliminary Steps	Responsible Agency	WP Reference
<p>9. 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. • 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. Communication among audit team members should continue as needed throughout the audit regarding the risk of misstatement and noncompliance due to error or fraud. 	DCAA	
10. Perform risk assessment and establish audit scope by assigning the detailed audit/review steps identified below to individual DCMA/DCAA team members.	DCMA / DCAA	
11. Attend the CIPR conference with the contractor.	DCMA / DCAA	
a. Discuss pension plan activity since the last review/audit.	DCMA / DCAA	
b. Obtain updated information for review/audit.	DCMA / DCAA	

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B-1 Preliminary Steps	Responsible Agency	WP Reference
c. Follow up with contractor management on corrective actions that previous address DCAA audit findings and recommendations.	DCAA	
d. Follow up with contractor management regarding other studies or audits (e.g., internal auditors, consultants, Independent Public Accountants) that impact the subject matter under audit.	DCAA	

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C-1 Defined Benefit Plans	Responsible Agency	WP Reference
Version 7.0, dated Feb 2023		
1. CAS Balance Test (CAS 412.40(c))		
a. Identify the outstanding balances of unamortized “charge” bases; i.e., that increase the unfunded actuarial liability (UAL).	DCMA	
b. Identify the outstanding balances of unamortized “credit” bases; i.e., that decrease the UAL.	DCMA	
c. Identify the accumulation of previous unallowable cost in accordance with CAS 412.50(a)(2).	DCMA	
d. Identify the accumulation of prepayment credits.	DCAA Lead	
e. Calculate the difference between the actuarial accrued liability and the total actuarial value of assets (including prepayment credits).	DCMA	
f. Test that step e equals [(a)-(b)+(c)-(d)], where a, b, c, and d are absolute values (i.e., treat each as a positive number). Reconcile any differences.	DCMA	
2. Assignment of Pension Costs		
a. Compute the assignable cost limitation by determining the excess of the actuarial accrued liability plus the normal cost over the actuarial value of plan assets (CAS 412.30(a)(9)).	DCMA	
b. Verify pension cost assigned to a cost accounting period does not exceed the assignable cost limitation (CAS 412.50(c)(2)(ii)).	DCMA	
c. Verify pension cost assigned to a cost accounting period does not exceed the ERISA maximum tax deductible amount plus any prepayment credit (CAS 412.50(c)(2)(iii)).	DCMA	
d. Ascertain that amounts computed in excess of the ERISA max. tax deductible limit are assigned to future accounting periods as an assignable cost deficit (CAS 412.50(c)(2)(iii). If reassignment of amounts originated in cost accounting periods prior to March 30, 1995, ensure that the claimed costs have not been previously allocated as cost or price to contracts in accordance with CAS 412.64(a)(1).	DCAA Lead	

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C-1 Defined Benefit Plans	Responsible Agency	WP Reference
3. General		
a. Reconcile the pension cost recorded on the contractor's books of account (including memorandum records) to the contractor's actuarial reports, Form 5500, and pension contributions.	DCAA	
b. Evaluate actuarial reports and determine any significant changes from the prior year.	DCMA	
c. Break out and summarize the elements that make up total CAS pension cost (CAS 412.40(a)(1)) from the data available in the actuarial report as follows:		
(1) The Normal Cost of the Period		
(2) A part of the Unfunded Actuarial Liability		
(3) An Interest Equivalent on the Unamortized Portion of any Unfunded Actuarial Liability		
(4) An Adjustment for any Actuarial Gains and Losses		
d. Reconcile, as necessary, each element to supporting actuarial report schedules to ensure the claimed pension cost is accurate.	DCMA	
e. Analyze pension plan changes and determine if they are discriminatory to the Government or are not intended to be applied consistently for all employees under similar circumstances in the future.	DCMA	
f. Verify whether pension supplements (excluding early retirement benefits) under the basic plan are available to all participants as required for cost allowability purposes (FAR 31.205-6(j)(1)(iii)).	DCMA	
g. Evaluate pension costs recorded for financial purposes and amounts used for Federal income tax computations (Schedules M-1, M-3, and B of contractor's Federal tax return Form 1120). Determine whether the adjustments for tax purposes have any effect on the amount of pension cost computed under the principles of CAS 412 and 413.	DCAA Lead	
h. Determine whether the current year's pension cost contains previously disallowed amounts (CAS 412.50(a)(2)).	DCMA	

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C-1 Defined Benefit Plans	Responsible Agency	WP Reference
<p>i. Benchmarking Requirements:</p> <p>Determine if pension plan benefits, when combined with other retirement benefits, fall within the range of benefits provided by other contractors of like size in the same industry. If the benefits appear unreasonable, notify DCAA that a compensation audit should be performed to determine whether total compensation costs are unreasonable.</p>	DCMA	
4. Actuarial Gains and Losses		
<p>a. Verify that actuarial gains and losses (operating) are computed annually (CAS 413.40(a)).</p>	DCMA Lead	
<p>b. Determine that actuarial gains and losses are included from all sources with emphasis on evaluating fund earnings (CAS 413.50(a)(1) and (2)).</p>	DCMA Lead	
<p>c. Obtain or prepare a schedule of annual actuarial gains and losses for major economic assumptions such as; interest rate, salary increase, and withdrawal assumptions (including retirements) or the last two years. Ascertain the reason for significant variances. This information should be used when performing steps in “6” below.</p>	DCMA Lead	
5. Actuarial Assumptions		
<p>a. Actuarial Interest Rate: An evaluation of the reasonableness of the interest rate assumptions should reflect long term expectations and include the following:</p>		
<p>(1) Obtain the trust’s rate of earnings for the last 5 years. Verify that the rate is computed as a percent of total asset market value and includes all trust income from all sources including realized and unrealized appreciation of assets.</p>	DCAA Lead	
<p>(2) Analyze major variations of annual percentage earnings for cause and effect. Analyze the Trust's portfolio of assets for recent years and determine any changes in the investment management/ philosophy of the Trustees.</p>	DCAA Lead	
<p>(3) Evaluate the Independent Auditor’s report and any other financial reports for pension data such as the actuarial cost method used to compute the reported pension liabilities, the interest rate assumption, etc.</p>	DCAA Lead	

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C-1 Defined Benefit Plans	Responsible Agency	WP Reference
(4) Determine and compare the contractor's interest rate assumptions used to compute pension cost of commercial and Government segments. Reasons for any differences should be explored and information used in the evaluation of the interest rate for Government segments.	DCMA	
(5) Obtain contractor's projections of Trust fund earnings for future years.	DCMA Lead	
(6) Compare the contractor's interest rate to rates used by other companies.	DCMA Lead	
(7) Based on the information gathered in the above steps, assess the reasonableness of the interest rate assumptions.	DCMA Lead	
b. Employee Withdrawals		
(1) Compare the employee withdrawal assumptions to the contractor's actual experience for the last 5 years.	DCMA Lead	
(2) Determine if special factors for unusual employee withdrawals are included in the calculation.	DCMA	
(3) Determine whether the cost associated with such factors has been properly allocated to segments.	DCAA	
c. Mortality Rates		
(1) Verify consistent application of mortality rate.	DCMA Lead	
(2) Determine that the mortality table being used is appropriate for the population.	DCMA	
d. Retirement Ages Verify that the factors for retirement ages reasonably represent the contractor's experience.	DCMA Lead	
e. Disability Evaluate disability assumptions to determine the reasonableness, consistent application, and reasons for any changes. Consider materiality.	DCMA Lead	
f. Projected Salary Escalation These steps apply to projected benefit cost methods.		
(1) Compare the projected salary escalation assumptions to the contractor's actual experience for the last 5 years.	DCMA Lead	

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C-1 Defined Benefit Plans	Responsible Agency	WP Reference
(2) Verify that the contractor is not using a low projected salary scale as an offset for use of a low interest rate assumption.	DCMA Lead	
6. Actuarial Value of Assets		
a. Determine if the asset valuation method is a recognized asset valuation method in accordance with CAS 413.50(b)(2).	DCAA Lead	
b. Evaluate the contractor's method for valuing assets such as land, debt, securities, and assets held by others for the pension trust (insurance contracts, mutual asset fund, second trust, etc.). Verify the contractor values these assets properly. Compare the valuation method to the illustration in (CAS 413.60(b)(1)).	DCAA Lead	
c. Verify the contractor's actuarial value of assets falls within the 80/120 corridor of the market value of pension assets (CAS 413.50(b)(2)).	DCAA Lead	
d. Verify asset value adjustments resulting from the valuation of assets are included in the amounts of actuarial gains and losses (CAS 413.50(a)(1) & (2)).	DCAA Lead	
e. Verify that the valuation method is consistently applied (CAS 413.50(b)(3)).	DCAA Lead	
7. Funding the Pension Trust		
a. Evaluate Schedule SB (or MB, if applicable) of Form 5500 and determine if the pension cost claimed during the accounting year on Government contracts was actually paid to the pension trust on a quarterly basis as required by the Contract Allowable Cost and Payment Clause.	DCAA Lead	
b. In conjunction with (a) above, verify payments to the trust during the current accounting period are actually for contributions computed for the accounting period.	DCMA Lead	
c. Verify that all pension contributions were paid by the time set for filing the contractor's Federal income tax return (FAR 31.205-6(j)(1)(i)(a)).	DCAA Lead	
d. If the contractor has obtained an ERISA funding waiver, determine that the waived amount is treated as an assignable cost deficit, amortized using the same amortization period used for ERISA purposes (CAS 412.50(c)(5)).	DCMA	

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C-1 Defined Benefit Plans	Responsible Agency	WP Reference
8. Amortization Periods		
a. Verify that the proper amount of actuarial gains and losses from plan operations are amortized in equal annual installments over 15 years (CAS 413.50(a)(2)).	DCMA Lead	
b. Verify that amounts resulting from a change in actuarial assumptions are properly computed and amortized over a 10 to 30 year period. (CAS 412.50(a)(1)(iv)).	DCMA Lead	
c. Verify initial unfunded past service liability is being properly computed and amortized over a 10 to 30 year period (40 years if the plan predates 1/1/74) (CAS 412.50(a)(1)(ii)).	DCMA Lead	
d. Determine that amounts resulting from plan amendments are amortized over a 10 to 30 year period (CAS 412.50(a)(1)(iii)).	DCMA Lead	
e. Verify the contractor complies with CAS 412.50(a)(3) which states that a contractor must follow a consistent disclosed or established policy of selecting amortization periods for unfunded actuarial liabilities	DCMA Lead	
f. Verify contractor's compliance with agreed to amounts and amortization periods for any CAS 413.50(c)(12) adjustment. (CAS 413.50(c)(12)(vii)).	DCAA Lead	
g. Verify that any assignable cost deficit is amortized over a 10 year period as required under CAS 412.50(a)(1)(vi).	DCMA Lead	
9. Allocation of Pension Cost to Segments		
a. Verify the contractor's allocation base is representative of factors that make up the pension cost (CAS 413.50(c)(1)).	DCAA Lead	
b. Verify that computation of the allocation base is accurate and properly applied.	DCAA Lead	
10. Pension Segmentation		
a. Determine if conditions exist that would require segment accounting (CAS 413.50(c)(2) and (3)).	DCAA Lead	
b. When computations are changed from a composite calculation to segment, determine if pension assets are allocated in accordance with the provisions of CAS 413.50(c)(5).	DCAA Lead	

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C-1 Defined Benefit Plans	Responsible Agency	WP Reference
c. When information is not readily available to perform a historical reconstruction of a segment's assets pursuant to CAS 413.50(c)(5)(i), verify that:		
(1) recalculation of actuarial liabilities was based on the same actuarial cost method used to compute cost (CAS 413.50(c)(5)(ii)).	DCMA Lead	
(2) previously unallowed unfunded liabilities are separately identified and excluded from the base used to allocate plan assets. Also, any portion of the previously unfunded liability is separately identified from future cost calculations (CAS 412.50(a)(2)).	DCAA Lead	
d. Determine whether the contractor merged pension plans since the last period evaluated. If so, determine if the contractor has complied with the provisions of CAS 413.50(c)(3).	DCAA Lead	
e. If the contractor calculates pension costs by segment, verify that the records required by CAS 413.50(c)(7) are properly maintained and that investment earnings of the trust are allocated in accordance with CAS 413.50(c)(7).	DCAA Lead	
f. Determine if the transfer of active employees among segments distorts the ratio of assets to the actuarial accrued liabilities. If so, complete the following step:	DCAA	
g. Determine if the corresponding transfer of assets equal to the employee's actuarial accrued liabilities (determined using the accrued benefit cost method) is made in accordance with CAS 413.50(c)(8).	DCMA	
11. Pension Trust Activities		
a. Trace accounting for plan assets and liabilities in the Trustee report to actuarial reports.	DCMA	
b. Review expenses of the trust and determine their necessity and reasonableness.	DCMA	
c. Evaluate the Trustee report and obtain an explanation from the contractor for unexplained withdrawals of pension assets. Perform additional procedures as needed to ensure that Government-contributed assets are protected.	DCMA	
12. Funding Requirements for Qualified Plans		
a. Determine if there are any prepayment credits and that prepayment credit carryovers to future years are separately identified in accordance with CAS 412.50(a)(4).	DCAA Lead	

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C-1 Defined Benefit Plans	Responsible Agency	WP Reference
b. If audit adjustments are necessary for failure to fund quarterly, compute the amount of the unallowable increased cost due to the loss of earnings from contract costing/billing.	DCMA	
(1) If quarterly funding was not made, verify that the contractor excluded the unallowable increased costs due to the loss of earnings from contract costing/billing in accordance with CAS 412.50(a)(2).	DCAA	
(2) If the contractor agrees, adjust the pension cost claimed in the current year for the full amount of increased cost (loss of earnings) due to the delayed funding. In the event the contractor does not agree to adjust pension cost claimed in the current year, the increased costs due to late funding must be tracked and excluded for future costs allocated to Government contracts.	DCAA Lead	
c. If the contractor adjusts for delayed funding by adjusting the actuarial value of assets when segment closing is involved, verify that the segment asset adjustment represents the full amount of assets that would have been assigned the Government segment had there been no delayed funding.	DCAA Lead	
d. If pension costs are calculated separately for a segment in accordance with CAS 413.50(c), verify that full quarterly funding is made for each segment having Government contracts. FAR 31.205-6(j)(2)(iii) states if there are timing differences between segments, allowable cost will be limited to computed cost for the segment.	DCAA	
13. 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 Pension Plans	Responsible Agency	WP Reference
Version 7.0, dated Feb 2023		
1. Determine the contractor's method of accounting for nonqualified pension plans, i.e. accrual basis or pay-as-you-go.	DCAA Lead	
2. Perform the following steps for those contractors that elect to use accrual accounting for non-qualified plans.		
a. Verify the contractor meets the three conditions prescribed in CAS 412.50(c)(3) for use of accrual accounting.	DCMA	
b. Evaluate the measurement of accrued costs for reasonableness and allocability.	DCMA	
c. With respect to the funding requirement, confirm that a funding agency has been established for the exclusive benefit of the plan participants (CAS 412.30(a)(13)).	DCAA	
d. Verify that accrued cost for nonqualified plans are funded at a level that is at least equal to the complement of the highest Federal income tax rate (CAS 412.50(d)(2)).	DCAA	
e. Assure that funding at less than the tax rate complement results in a proportional reduction in the amount of assigned cost.	DCMA	
f. Determine contractor accounting for the market value of plan assets includes the accumulated value of permitted unfunded accruals as illustrated in CAS 412.60(d)(5).	DCAA Lead	
3. For contractors using the pay-as-you-go (PAYG) method, verify amount assigned to a cost accounting period does not exceed (i) the net amount of benefits paid during the period and (ii) the installment required to amortize over 15 years any amounts paid to irrevocably settle a pension obligation due in the current or future accounting periods (CAS 412.50(b)(3)).	DCAA Lead	
4. Verify that contractors changing from accrual accounting to the PAYG method comply with the transition rules of 412.64(e), as follows:		
a. Determine that any portion of unfunded pension cost assigned to prior year periods is accounted for as accumulated value of permitted unfunded accruals and assigned to future accounting periods (imputed assets).	DCAA Lead	
b. Verify that costs computed under the PAYG method are charged against the accumulated value of permitted unfunded accruals as determined above, before any PAYG costs are allocated to contracts.	DCAA Lead	

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D-1 Non-Qualified Pension Plans	Responsible Agency	WP Reference
5. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	DCAA	

E-1 Defined Contribution Plans	Responsible Agency	WP Reference
Version 7.0, dated Feb 2023		
1. If the plan is a defined contribution plan, verify that contributions are properly computed and allocated correctly to the applicable segment's overhead.	DCAA	
2. Determine if applicable forfeitures, dividends, or refunds are properly credited to the cost of contributions (CAS 412.40(a)(2)) when applicable.	DCAA Lead	
3. Determine contractor's compliance with the quarterly funding requirements of FAR 52.216-7 and FAR 52.232-16 for interim billings and progress payments requested during the accounting period.	DCAA	
4. Verify that pension costs for closely held corporations are deductible for federal income tax purposes. Costs not deductible pursuant to the IRC should be disallowed in accordance with FAR 31.205-6(a)(6)(iii).	DCAA	
5. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	DCAA	

F-1 Early Retirement Incentives	Responsible Agency	WP Reference
Version 7.0, dated Feb 2023		
1. Verify claimed cost is computed and accounted for in accordance with the actuarial cost method used under the contractor's basic pension plan. (FAR 31.205-6(j)(6)(i))	DCMA	
2. Determine allocability of the contractor's computed early retirement incentive cost to intermediate and final cost objectives.	DCAA	
3. Verify that the present value of early retirement incentive payments do not exceed the employee's annual salary for the previous year (FAR 31.205-6(j)(6)(iv)).	DCAA	
4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	DCAA	

MASTER AUDIT PROGRAM

G-1 Pension Cost for Retirees	Responsible Agency	WP Reference
Version 7.0, dated Feb 2023		
1. When an inactive segment is established, verify the amount of assets allocated to the inactive segment is allocated in accordance with CAS 413.50(c)(5), (6) & (7).	DCMA	
2. Verify when an active employee becomes inactive, or vice versa, that the amount of assets transferred equals the employee's actuarial accrued liabilities determined using the accrued cost method in accordance with CAS 413.50(c)(9).	DCAA	
3. Ascertain if pension cost attributed to the inactive segment is allocated to the active segment in accordance with the requirements of CAS 413.50(c)(1).	DCAA	
4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	DCAA	

MASTER AUDIT PROGRAM

A-1 Concluding Steps	Responsible Agency	WP Reference
Version 7.0, dated Feb 2023		
1. Summarize and document the results of audit. Discuss the findings with the CIPR team members and develop a unified Government position.	DCMA / DCAA	
<p>2. 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 immaterial, but could become material if circumstances change, notify the CFAO through a memorandum. The memorandum will include a Statement of Condition and Recommendation (SOCAR) and provide the CFAO 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 immaterial noncompliance will be reported in a separate exhibit to the report titled "Noncompliance that Warrants Attention of the Cognizant Federal Agency Official." Reference to the exhibit for the immaterial 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 audit 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 significant internal control deficiency is detected during the course of this audit, ensure that the findings have been fully developed to determine if a significant deficiency in compliance with the DFARS 252.242-7006 criteria exists. If so, open a Business System Deficiency assignment (Activity Code 11090) to report the deficiency and submit it to the contractor for comment.	DCAA	

MASTER AUDIT PROGRAM

A-1 Concluding Steps	Responsible Agency	WP Reference
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	