

MASTER AUDIT PROGRAM

Activity Code 19500	Cost Impact Statement (Price Adjustment)
B-1 Planning Considerations	Version 9.1, dated Feb 2024
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 the contractor's cost impact proposal (includes General Dollar Magnitude (GDM) or Detailed Cost Impact (DCI)) submitted in response to a change in cost accounting practice or the result of a noncompliance (failure to comply with 48 CFR 9904.4XX or the contractor's disclosed practices). Audit procedures will be tailored based on the circumstances surrounding the contractors' submission and should be prepared to determine if proposed amounts comply with contract terms for administering the Cost Accounting Standards (CAS) under FAR 52.230-6. The FAO may also set up a 19500 cost impact assignment to record dollars examined, questioned cost, questioned cost sustained, and net savings in DMIS when the Cognizant Federal Agency Official (CFAO) resolves a CAS issue without an audit of a contractor-prepared cost impact proposal.</p>	
Other Planning Considerations	
<p>Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.</p>	
References	
1. CAM 8-500, Audit of Cost Impact Proposals Submitted Pursuant to the Cost Accounting Standards Clause	
2. CAS Board Regulations (Especially 9903.201-6 and 9903.306)	
3. DoD CAS Working Group Guidance Papers (WG 76-4, 76-5, 76-6, 76-9, and 77-17)	
4. CAS Clauses: FAR 52.230-2, FAR 52.230-3, FAR 52.230-4, FAR 52.230-5, and FAR 52.230-6	
5. FAR Subpart 30.6 CAS Administration	
CAS Definitions:	
<p>(1) <i>“Allocation of cost to cost objectives, ...includes both direct and indirect allocation of costs. Examples of cost accounting practices involving allocation of cost to cost objectives are the accounting methods or techniques used to accumulate cost, to determine whether a cost is to be</i></p>	

MASTER AUDIT PROGRAM

CAS Definitions:
directly or indirectly allocated to determine the composition of cost pools, and to determine the selection and composition or the appropriate allocation base.”
(2) “ <i>Assignment of costs to cost accounting periods</i> , ...refers to a method or technique used in determining the amount of cost to be assigned to individual cost accounting periods. Examples of cost accounting practices which involve the assignment of cost to cost accounting periods are requirements for the use of specified accrual basis of accounting or cash basis accounting for a cost element.”
(3) “ <i>Change in cost accounting practice</i> , ...means any alteration in a cost accounting practice, as defined in 9903.302-1, whether or not such practices are covered by a Disclosure Statement.”
(4) “ <i>Cost accounting practice</i> , . . . means any disclosed or established accounting method or technique which is used for allocation of cost to cost objectives, assignment of cost to cost accounting periods, or measurement of costs.”
(5) <i>Estimate to complete (ETC)</i> , ...represents estimates of direct and indirect costs to be incurred in the future to complete the contract/subcontract scope of work from a given date. ETC should not take into consideration what has already been incurred. The combination of the incurred costs to date plus ETC equals estimate at completion (EAC).
(6) “ <i>Measurement of costs</i> , ... encompasses accounting methods and techniques used in defining the components of cost, determining the basis for cost measurement, and establishing criteria for use of alternative cost measurement techniques.”
FAR Part 30.001 Definitions
“ <i>Affected CAS-covered contract or subcontract</i> means a contract or subcontract subject to Cost Accounting Standards (CAS) rules and regulations for which a contractor or subcontractor- (1) Used one cost accounting practice to estimate costs and a changed cost accounting practice to accumulate and report costs under the contract or subcontract; or (2) Used a noncompliant practice for purposes of estimating or accumulating and reporting costs under the contract or subcontract.”
“ <i>Cognizant Federal agency official (CFAO)</i> means the contracting officer assigned by the cognizant Federal agency to administer the CAS.”
“ <i>Desirable change</i> means a compliant change to a contractor’s established or disclosed cost accounting practices that the CFAO finds is desirable and not detrimental to the Government and is, therefore, not subject to the no increased cost prohibition provisions of CAS-covered contracts and subcontracts affected by the change.”
“ <i>Fixed-price contracts and subcontracts means-</i> (1) Fixed-price contracts and subcontracts described at 16.202 , 16.203 (except when price adjustments are based on actual costs of labor or material, described at 16.203-1(a)(2)), and 16.207 ; (2) Fixed-price incentive contracts and subcontracts where the price is not adjusted based on actual costs incurred (subpart 16.4); (3) Orders issued under indefinite-delivery contracts and subcontracts where final payment is not based on actual costs incurred (subpart 16.5); and (4) The fixed-hourly rate portion of time-and-materials and labor-hours contracts and subcontracts (subpart 16.6).”

MASTER AUDIT PROGRAM

FAR Part 30.001 Definitions

“Flexibly-priced contracts and subcontracts means-

- (1) Fixed-price contracts and subcontracts described at [16.203-1\(a\)\(2\)](#), [16.204](#), [16.205](#), and [16.206](#);
- (2) Cost-reimbursement contracts and subcontracts ([subpart 16.3](#));
- (3) Incentive contracts and subcontracts where the price may be adjusted based on actual costs incurred ([subpart 16.4](#));
- (4) Orders issued under indefinite-delivery contracts and subcontracts where final payment is based on actual costs incurred ([subpart 16.5](#)); and
- (5) The materials portion of time-and-materials contracts and subcontracts ([subpart 16.6](#)).”

“Noncompliance means a failure in estimating, accumulating, or reporting costs to-

- (1) Comply with applicable CAS; or
- (2) Consistently follow disclosed or established cost accounting practices.”

“Required change means-

- (1) A change in cost accounting practice that a contractor is required to make in order to comply with applicable Standards, modifications or interpretations thereto, that subsequently becomes applicable to an existing CAS-covered contract or subcontract due to the receipt of another CAS-covered contract or subcontract; or
- (2) A prospective change to a disclosed or established cost accounting practice when the CFAO determines that the former practice was in compliance with applicable CAS and the change is necessary for the contractor to remain in compliance.”

“Unilateral change means a change in cost accounting practice from one compliant practice to another compliant practice that a contractor with a CAS-covered contract(s) or subcontract(s) elects to make that has not been deemed a desirable change by the CFAO and for which the Government will pay no aggregate increased costs.

MASTER AUDIT PROGRAM

B-1 Preliminary Steps	WP Reference
Version 9.1, dated Feb 2024	
<p>1. Determine the reason for the proposed cost impact (see contract clauses below). Review the pertinent Disclosure Statement(s), CAS compliance, and/or noncompliance audit report(s) from the permanent file. The auditor should also review the permanent file to ensure the FAO received a copy of the Cognizant Federal Agency Official's (CFAO) final noncompliance determination. If this determination is not contained in the permanent file, obtain a copy before proceeding with the examination.</p> <ul style="list-style-type: none"> • FAR 52.230-2(a)(4)(i). Required change. Equitable adjustment under CAS clause. • FAR 52.230-2(a)(4)(ii) and -2(a)(5). Unilateral change. Government shall pay no increased cost in the aggregate. • FAR 52.230-2(a)(4)(iii) and -3(a)(3)(ii). Desirable change. Change that is not detrimental to the Government made in accordance with 48 CFR 9903.201-6(c). Equitable adjustment under CAS clause. • FAR 52.230-2(a)(5), -3(a)(4), and -4. Noncompliance (accumulating/estimating) with CAS or disclosed practice. Government shall pay no increased cost to in the aggregate. 	
<p>2. If the cost impact proposal was prepared for a Cost Accounting Practice (CAP) change, identify the type of CAP change:</p> <ul style="list-style-type: none"> • measurement of cost, • assignment of cost to cost accounting periods, or • allocation of cost to cost objectives (direct and indirect allocation, composition of the indirect pool, selection of the allocation base, or composition of the allocation base). 	
<p>3. If the cost impact proposal was prepared for a CAS noncompliance, identify the type of CAS noncompliance at issue (estimating, accumulating, disclosed or combination).</p> <p><i>Note: An estimating noncompliance is one where the contractor used a noncompliant practice to price contracts/subcontracts.</i></p> <p><i>An accumulating noncompliance is one where the contractor used a noncompliant practice to allocate incurred costs to contracts/subcontracts, assign cost to cost accounting periods, or measure costs. Contractors may fail to comply with either a CAS provision or its own disclosed/established practice.</i></p>	
<p>4. Document the timeline of events showing all pertinent dates, such as the effective date of the cost accounting practice (CAP) change or inception date of the noncompliance, date the noncompliance was corrected (if applicable), the applicability date of the relevant standard (for required changes), the CFAO determination dates, etc. These dates are useful to establish the length of time the cost impact should cover and the time period in which the Government is able to recover increased costs.</p>	

MASTER AUDIT PROGRAM

B-1 Preliminary Steps	WP Reference
<p>5. Determine if separate impacts for each change or noncompliance have been provided. When multiple changes or noncompliance are involved, separate impacts must be calculated for each change. Separate noncompliances likewise must have separate impacts.</p>	
<p>6. Coordinate with the contractor and the CFAO to obtain a walkthrough of the proposal and to gain an understanding of the basis of the proposal and related supporting documentation. As part of this walkthrough, require the contractor to identify any information needed to complete the adequacy review:</p> <ul style="list-style-type: none"> • Description of the change or noncompliance, • Description of the affected CAS-covered contract/subcontract universe <ul style="list-style-type: none"> ○ CAP changes apply to both flexibly priced and fixed price contracts/subcontracts; ○ Accumulating noncompliance applies to flexibly priced contracts/subcontracts; and ○ Estimating noncompliance applies to fixed price contracts/subcontracts), • Description of the basis of estimates and other cost data used to prepare the cost impact proposal, • Time period covered by the cost impact proposal: <ul style="list-style-type: none"> ○ CAP change: from the date the change was made to the end of contract/subcontract performance; ○ Accumulating noncompliance: from the time the noncompliance started to the time the noncompliance was corrected; ○ Estimating noncompliance: the entire period of performance. • Identification of the personnel who created the cost impact proposal. 	
<p>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.</p>	
<p>8. Contact the CFAO to ascertain any known concerns that will impact the audit and adjust the audit scope and procedures accordingly.</p>	
<p>9. Evaluate the adequacy of the contractor's proposal using the Cost Impact Adequacy Tool at WP B-04. If the submission is not adequate (i.e., will not allow the auditor to consistently evaluate it using the applicable criteria or obtain sufficient appropriate audit evidence to support an opinion), then document the nature and extent of the inadequacies, advise the CFAO and recommend that an adequate proposal be obtained.</p>	
<p>10. Identify the business units (home office and/or segment(s)) that will be affected by the CAP change or CAS noncompliance.</p>	

MASTER AUDIT PROGRAM

B-1 Preliminary Steps	WP Reference
<p>11. Identify the universe of CAS-covered contracts and subcontracts that will be affected by the change or noncompliance.</p> <ul style="list-style-type: none"> • CAP Changes: All CAS-covered contracts and subcontracts (flexibly priced and fixed price) that were priced/awarded under the prior cost accounting practice are included in the cost impact proposal regardless of their status (i.e., open or closed) or the fiscal year in which the costs were incurred (i.e., whether the final indirect rates have been established or not). (FAR 30.604(h) and FAR 52.230-6(f)) • Estimating CAS Noncompliance: all CAS-covered fixed price contracts/subcontracts and fixed, target, and incentive fees on flexibly priced contracts/subcontracts negotiated during the period of noncompliance are included in the cost impact proposal regardless of their status (i.e., open or closed), the fiscal year in which the costs were incurred, or whether the final indirect rates have been established or not. (FAR 30.604(h) and FAR 52.230-6(f)) • Accumulating CAS Noncompliance: all CAS-covered flexibly priced contracts/subcontracts performed during the period of noncompliance is included in the cost impact proposal regardless of their status (i.e., open or closed), the fiscal year in which the costs were incurred, or whether the final indirect rates have been established or not. (FAR 30.604(h) and FAR 52.230-6(f)) 	
<p>12. Review the permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit.</p> <ol style="list-style-type: none"> a. If there were findings, make a list of prior findings and during the entrance conference, ask the 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. b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit in the risk assessment. 	
<p>13. 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> <ol style="list-style-type: none"> a. If there are no other studies or audits, document that information in the work papers and perform the procedures below. <ul style="list-style-type: none"> • If you find that internal audits were performed, request the contractor to provide a summary listing of the internal audits that 	

MASTER AUDIT PROGRAM

B-1 Preliminary Steps	WP Reference
<p>would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.</p> <ul style="list-style-type: none"> • If you find that other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit, have the contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result. <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ol style="list-style-type: none"> a. 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 connection between the internal audit reports and the scope of this specific assignment. b. Document the results of the determination in writing. c. If the assignment is at a major contractor location, coordinate with the CAD or FAO point of contact (POC) for internal audit reports and request the contractor to provide access to the reports. <ul style="list-style-type: none"> • If the assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request that the contractor provide access to the internal audit reports. • The request, issued by the CAD, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. A copy of the request will be placed in the administrative work 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 document 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>	

MASTER AUDIT PROGRAM

B-1 Preliminary Steps	WP Reference
<p>14. During the entrance conference, discuss the cost impact proposal and obtain any additional information or data needed:</p> <ul style="list-style-type: none"> a. Determine if the contractor is contemplating any modifications to the proposed cost impact. If so, coordinate with the contractor and CFAO to avoid unnecessary audit effort. b. Follow up with contractor management on: <ul style="list-style-type: none"> (1) corrective actions that address previous DCAA audit findings and recommendations (ref. Step 12), (2) other studies or audits that impact the subject matter under audit. 	
<p>15. 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>	

MASTER AUDIT PROGRAM

B-1 Preliminary Steps	WP Reference
<p>16. 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 noncompliance, whether due to error or fraud, that could materially 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. <i>Copy link and paste into web browser,</i> • other known risk factors identified that could materially affect the subject matter, 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>17. From the information gathered in the preceding steps and using the materiality criteria in 48 CFR 9903.305, assess the audit risk and determine the scope of audit and extent of compliance testing to be performed.</p>	
<p>18. Coordinate the audit report due date with the CFAO based on the results of preliminary audit steps. Request technical assistance regarding the evaluation of estimates to complete, if needed.</p>	
<p>19. Prepare and issue an acknowledgment memorandum to the CFAO regarding the audit in accordance with CAM 4-104.</p>	
<p>20. Prepare and issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3</p>	
<p>21. Update the information in the permanent files as needed. (MAAR 3)</p>	

MASTER AUDIT PROGRAM

C-1 Change in Cost Accounting Practice (CAP)	WP Reference
Version 9.1, dated Feb 2024	
<p>1. Perform limited tests of the contractor’s universe of CAS-covered contracts/subcontracts (using EDA or other source of contract data) to verify the completeness of the cost impact proposal. Ensure that:</p> <p><i>Notes:</i> <i>For GDM proposals, this can be accomplished at the contract-type level.</i> <i>For detailed cost impact proposals, this should be done at the individual contract/subcontract level on a sampling/selection of contracts/subcontracts.</i></p>	
<p>a. All CAS-covered contracts and subcontracts (flexibly priced and fixed price) that were priced/awarded under the prior cost accounting practice are included in the cost impact proposal regardless of their status (i.e., open or closed) or the fiscal year in which the costs were incurred (i.e., whether the final indirect rates have been established or not). (FAR 30.604(h) and FAR 52.230-6(f))</p> <p><i>Note: Ensure the cost impact proposal is limited to affected CAS-covered contracts and subcontracts. Including non-CAS-covered contracts and subcontracts could have an adverse effect on the true impact to the Government.</i></p>	
<p>b. Verify the affected CAS-covered contracts/subcontracts are correctly classified and grouped as flexibly priced or fixed priced.</p> <ul style="list-style-type: none"> • Flexibly priced contracts/subcontracts include cost-reimbursement contracts/subcontracts and other contracts/subcontracts subject to adjustment based on actual costs incurred; incentive contracts/subcontracts where the price may be adjusted based on actual costs incurred; and the flexibly priced portions of time-and-materials contracts/subcontracts. • Fixed price contracts/subcontracts include those contracts and subcontracts where the price does not vary based on the contractor’s actual costs, including the fixed hourly rate portion of time-and-materials and labor-hour contracts and subcontracts. 	
<p>c. The cost impact time period starts with the implementation of the CAP change and extends through the performance period of all applicable CAS-covered contracts/subcontracts.</p>	
<p>d. The cost impact should be limited to the difference between the "new/after" CAP Estimate to Complete (ETC) and "old/before" CAP ETC related to this particular CAP change. Ensure the contractor's cost impact proposal does not contain any other CAP changes.</p>	
<p>e. For CAP changes required to implement a new standard, verify that only those CAS-covered contracts and subcontracts awarded prior to the standard's effective date are included in the cost impact proposal.</p>	
<p>2. Obtain the contractor’s basis for the ETCs for both “new/after” the CAP change and “old/before” the CAP change and perform the following procedures:</p>	

MASTER AUDIT PROGRAM

C-1 Change in Cost Accounting Practice (CAP)	WP Reference
<p>a. Analyze and document the contractor's assumptions and methodology for developing the cost estimates used and determine whether those assumptions and methods are current, logical and will produce a reasonably accurate estimate of the cost impact for all affected CAS-covered flexibly priced and fixed price contracts and subcontracts. If the contractor's ETC is more than six months old, coordinate with the CFAO.</p>	
<p>b. Examine and document the basis of the contractor's proposed direct costs and indirect rates used to develop the ETC amounts.</p>	
<p>3. Verify the accuracy of the contractor's ETCs by performing the following:</p>	
<p>a. Based on the examination of the assumptions used by the contractor to develop the ETCs in the cost impact proposal, verify the ETCs only measure the CAP change (ETCs for other CAP changes should be excluded). Determine if the contractor's ETC approximate the dollar value remaining on those CAS-covered contracts/subcontracts (i.e., if the ETC for a contract is \$200M, is the remaining dollar value of the contract also approximately \$200M or does the ETC vary significantly from the value?). If the ETCs do not accurately reflect the remaining contract value, the cost impact proposal will not be accurate.</p>	
<p>b. Perform a yearly reconciliation of the anticipated business base, as identified in forward pricing or other relevant contractor estimates, to the ETC direct costs in the cost impact proposal. This provides a check on the contractor's calculations and should reveal any cost impacts resulting from CAP changes other than the identified CAP change (e.g., increased efficiency). Add additional audit steps if necessary.</p> <p><i>Note: The contractor's estimates of fixed and flexible business base used in the most recent forward pricing should be consistent with those in the GDM.</i></p>	
<p>4. Select a representative sample/selection of CAS-covered contracts/subcontracts, both flex and fixed, to verify the proposed cost impact calculations. The following 3 Steps should be used to calculate the audit recommended CAP change cost impact. Additionally, perform Step 4 to calculate the aggregate cost impact for a unilateral CAP change. (FAR 30.604(h) and FAR 52.230-6(f))</p>	
<p>5. Step 1 – New/After ETC Minus Old/Before ETC for Each CAS-covered Contract/ Subcontract: For each CAS-covered contract/subcontract selected for evaluation, compute the increase / (decrease) in negotiated cost on fixed price contracts/subcontracts or cost accumulations on flexibly priced contracts/subcontracts due to the CAP change as follows:</p>	

MASTER AUDIT PROGRAM

C-1 Change in Cost Accounting Practice (CAP)	WP Reference
<p>a. Calculate the mathematical difference between the ETC using the new/after CAP and the ETC using the old/before CAP change, from the date of the CAP change to the end of the period of performance of all affected CAS-covered contracts/subcontracts.</p>	
<p>b. Calculate the cost impact on negotiated profit and fee for the selected CAS-covered contracts/subcontracts by applying the negotiated profit/fee percent to the increased/(decreased) cost.</p> <p><i>Note: The fixed fee on a Cost Plus Fixed Fee (CPFF) contract should be treated the same as fixed price contracts/subcontracts when determining the increase / (decrease) cost. The negotiated percentage should be used to estimate the impact on affected CAS-covered contracts/subcontracts.</i></p>	
<p>6. Step 2 – Total Increases and (Decreases) within Each Group (flex and fixed): Add the increases / (decreases) in ETCs, to include the associated profit/fee, within each contract/subcontract group (flex and fixed).</p>	
<p>7. Step 3 – Determine Increased/(Decreased) Cost to the Government for Each Group (flex and fixed): Determine the increased / (decreased) cost to the Government for each contract/subcontract group (flex and fixed), using the net impact to each contract/subcontract group from Step 2. above.</p> <p>a. <u>Flexibly priced contract/subcontract group:</u></p> <ul style="list-style-type: none"> • When the net group amount is an increase to cost, this is increased costs to the Government. <i>(new/after ETC is greater than old/before ETC)</i> • When the net group amount is a decrease of cost, this is decreased cost to the Government. <i>(new/after ETC is less than old/before ETC)</i> <p>b. <u>Fixed price contract/subcontract group:</u></p> <ul style="list-style-type: none"> • When the net group amount is an increase to cost, this is decreased costs to the Government. <i>(new/after ETC is greater than old/before ETC)</i> • When the net group amount is a decrease of cost, this is increased cost to the Government. <i>(new/after ETC is less than old/before ETC)</i> <p>c. <u>Fixed profit/fee:</u></p> <ul style="list-style-type: none"> • When the fixed profit/fee amount is an increase to profit/fee, this is decreased costs to the Government. <i>(new/after ETC is greater than old/before ETC)</i> • When the fixed profit/fee amount is a decrease of profit/fee, this is increased cost to the Government. <i>(new/after ETC is less than old/before ETC)</i> 	

MASTER AUDIT PROGRAM

C-1 Change in Cost Accounting Practice (CAP)	WP Reference
<p>8. Step 4. – Aggregate Cost Impact for a Unilateral CAP Change:</p> <p>Determine the aggregate increased / (decreased) costs to the Government (including profit/fee) based on the amount of increased / (decreased) cost calculated for each contract/subcontract group (steps 1. through 3. above). The auditor should consider whether or not the increased or (decreased) costs to the Government are the result of a reallocation/shifting of the same costs among contract/subcontract types when determining the increased cost in the aggregate. Determine the cost impact in the aggregate in accordance with CAM 8-503.2.d.</p>	
<p>9. Complete the audit report Exhibit and Schedule:</p> <ul style="list-style-type: none"> a. Statement of Contractor’s Proposed Contract Price Adjustment for a (Required, Desirable, or Unilateral) Cost Accounting Practice and Results of Audit b. Statement of Audit Recommended Increased/(Decreased) Costs to the Government by Contract/Subcontract Type and Department/Agency 	
<p>10. Document the auditor’s discussion with the CFAO regarding the proposed amounts, results of audit and compliance with FAR 52.230-6. (CAM 4-105 and 8-302.4.)</p>	
<p>11. Draft the Summary of Conclusions, Basis of Contractor’s Proposal and Audit Evaluation of the structured explanatory note(s). (CAM 10-211 and 8-505f.)</p> <ul style="list-style-type: none"> a. The Summary of Conclusions section should provide a summary statement of audit exception(s) and the basis for the exception(s), including a specific reference to the relevant provisions of FAR 52.230-6 Administration of Cost Accounting Standard. b. The Basis of Contractor’s Proposal section should include a description of the contractor’s netting methodology among contract groups. c. The Audit Evaluation section should provide sufficient detail on the calculation of the audit exceptions for the CFAO to understand the basis for the audit exceptions. 	
<p>12. After management review and approval of the draft explanatory note(s), send the draft to the contractor and request a formal written response. (CAM 4-304.6(b) transmittal letter)</p>	
<p>13. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	

MASTER AUDIT PROGRAM

D-1 Noncompliance - Price Adjustment	WP Reference
<p>Version 9.1, dated Feb 2024</p>	
<p>1. Perform limited tests of the contractor’s universe of CAS-covered contracts/subcontracts (using EDA or other source of contract data) to verify all affected CAS-covered contracts/subcontracts negotiated/performed during the period of noncompliance are included.</p> <p><i>Notes:</i></p> <p><i>For GDM proposals, this can be accomplished at the contract-type level.</i></p> <p><i>For detailed cost impact proposals, this should be done at the individual contract/subcontract level on a sampling/selection of contracts/subcontracts.</i></p> <p><i>Ensure the cost impact proposal is limited to affected CAS-covered contracts and subcontracts. Including non-CAS-covered contracts and subcontracts could have an adverse effect on the true impact to the Government.</i></p>	
<p>a. For an <i>Estimating Noncompliance</i>, ensure all CAS-covered fixed price contracts/subcontracts and fixed, target, and incentive fees on flexibly priced contracts/subcontracts negotiated during the period of noncompliance are included in the cost impact proposal regardless of their status (i.e., open or closed), the fiscal year in which the costs were incurred, or whether the final indirect rates have been established or not. (FAR 30.604(h) and FAR 52.230-6(f)) Verify the contractor’s cost impact proposal includes both the estimates/negotiated amount based on the noncompliant estimating practice and what should have been estimated/negotiated if the contractor was using a compliant estimating practice.</p> <p><i>Note: Fixed priced contracts/subcontracts include those contracts and subcontracts where the price does not vary based on the contractor’s actual costs, including the fixed hourly rate portion of time-and-materials and labor-hour contracts and subcontracts. Estimating noncompliances affect the entire period of performance for each affected contract and subcontract.</i></p>	
<p>b. For an <i>Accumulating Noncompliance</i>, ensure all CAS-covered flexibly priced contracts/subcontracts performed during the period of noncompliance is included in the cost impact proposal regardless of their status (i.e., open or closed), the fiscal year in which the costs were incurred, or whether the final indirect rates have been established or not. (FAR 30.604(h) and FAR 52.230-6(f)) Verify the contractor’s cost impact includes the actually recorded amount incurred using the noncompliant accumulating practice and what should have been recorded if the contractor was using a compliant accumulating practice.</p> <p><i>Note: Flexibly priced contracts/subcontracts include cost-reimbursement contracts/subcontracts and other contracts/subcontracts subject to</i></p>	

MASTER AUDIT PROGRAM

D-1 Noncompliance - Price Adjustment	WP Reference
<p><i>adjustment based on actual costs incurred; incentive contracts/subcontracts where the price may be adjusted based on actual costs incurred; and the flexibly priced portions of time-and-materials contracts/subcontracts.</i></p>	
<p>c. When the CAS noncompliance is both an estimating and accumulating noncompliance the contractor's cost impact proposal must have both flexibly and fixed price contracts/subcontracts.</p>	
<p>d. Add additional audit steps if necessary.</p>	
<p>2. Examine the basis of the contractor's direct costs and indirect rates used in the cost impact proposal. Analyze and document the contractor's assumptions and methodology for developing the cost estimates used, and determine whether those assumptions and methods are logical and will produce a reasonably accurate estimate of the cost impact for all affected fixed-price and flexibly-priced contracts and subcontracts. (FAR 30.605(h) and FAR 52.230-6(g))</p>	
<p>3. Verify that the cost impact was computed from the date the noncompliance first occurred until the date the noncompliance was corrected.</p>	
<p>4. Select a representative sample/selection of CAS-covered contracts/subcontracts, flex/fixed, to verify the proposed cost impact calculations. The following 4-step process should be used to calculate the audit recommended cost impact related to both estimating and accumulating CAS noncompliances. (see CAM 8-503.3)</p> <p><i>Note: the estimating noncompliance impact is calculated using the fixed price contract/subcontract group plus fixed profit/fees on flexibly priced contracts/subcontracts. While the accumulating noncompliance is calculated using the flexibly priced contracts/subcontracts.</i></p>	
<p>5. Step 1- Noncompliant CAP Cost Minus Compliant CAP Cost: For each CAS-covered contract/subcontract selected for examination, compute the increase / (decrease) in cost estimates and/or cost accumulations due to the noncompliance as follows:</p>	
<p>a. <u>For a noncompliance in cost accumulation:</u> Calculate the mathematical difference between costs accumulated using the noncompliant CAP and costs that would have been accumulated had a compliant CAP been used for all flexibly priced CAS-covered contracts/subcontracts. This calculation should include only the periods during which the contractor accumulated costs using the noncompliant practice.</p>	

MASTER AUDIT PROGRAM

D-1 Noncompliance - Price Adjustment	WP Reference
<p>b. <u>For a noncompliance in cost estimating</u>: Calculate the mathematical difference between the contract price estimated/negotiated using the noncompliant CAP and what the estimated/negotiated contract price would have been had a compliant CAP been used for all fixed price CAS-covered contracts/subcontracts. This calculation should include the contracts/subcontracts entire period of performance.</p>	
<p>c. Calculate the impact on negotiated profit and fee for all affected CAS-covered contracts/subcontracts.</p>	
<p>6. Step 2 – Total Increases and (Decreases) within Each Group (flex and fixed):</p> <p>a. Add the flexibly priced contract/subcontract group increases / (decreases) in cost accumulations and/or cost estimates.</p> <p>b. Add the fixed price contract/subcontract group increases / (decreases), to include the associated profit/fee, in cost accumulations and/or cost estimates.</p>	
<p>7. Step 3 – Determine Increased/(Decreased) Cost to the Government for Each Group (flex and fixed):</p> <p>Determine the increased / (decreased) cost to the Government for each contract group (flexibly priced and fixed price), using the net impact on cost accumulations or cost estimates from step 2. above. Keep in mind the following:</p> <p>a. <u>Flexibly priced contract/subcontract group</u>:</p> <ul style="list-style-type: none"> • Increased costs to the Government occur when more costs were accumulated while using the noncompliant CAP. • Decreased costs to the Government occur when fewer costs were accumulated while using the CAS noncompliant CAP. <p>b. <u>Fixed price contract/subcontract group</u>:</p> <ul style="list-style-type: none"> • Increased costs to the Government occur when higher costs were estimated and negotiated while using the noncompliant estimating CAP. • Decreased costs to the Government occur when fewer costs were estimated and negotiated while using the a noncompliant estimating CAP. <p>c. <u>Fixed profit/fee</u>:</p> <ul style="list-style-type: none"> • Increased costs paid by the Government also occur when more profit/fee was negotiated than would have been contemplated by the contracting parties if the cost estimate had been based on a compliant CAP. • Decreased costs paid by the Government occur when less profit/fee was negotiated than would have been contemplated by the contracting parties if the cost estimate had been based on a compliant CAP. 	

MASTER AUDIT PROGRAM

D-1 Noncompliance - Price Adjustment	WP Reference
<p>8. Step 4 – Calculate the Aggregate Cost Impact to the Government:</p> <p>Add the flexibly priced group and fixed price group increased and/or (decreased) costs to the Government (including profit/fee) together to determine the aggregate increased or (decreased) costs paid by the Government.</p>	
<p>9. Complete the audit report Exhibit and Schedule:</p> <ul style="list-style-type: none"> a. Statement of Contractor’s Proposed Contract Price Adjustment for Noncompliance with CAS 4XX and /or Disclosed Cost Accounting Practices and Results of Audit, b. Statement of Audit Recommended Increased/(Decreased) Costs to the Government by Contract/Subcontract Type and Department/Agency 	
<p>10. Document the auditor’s discussion with the CFAO regarding the proposed amounts, results of audit and compliance with FAR 52.230-6. (CAM 4-105 and 8-302.4.)</p>	
<p>11. Draft the Summary of Conclusions, Basis of Contractor’s Proposal and Audit Evaluation of the structured explanatory note(s). (CAM 10-211 and 8-505f.)</p> <ul style="list-style-type: none"> a. The Summary of Conclusions section should provide a summary statement of the audit exception(s) and the basis for the exception(s), including a specific reference to the relevant provisions of FAR 52.230-6 Administration of Cost Accounting Standard. b. The Basis of Contractor’s Proposal section should include a description of the aggregation methodology among contract types used by the contractor. c. The Audit Evaluation section should provide sufficient detail on the calculation of the audit exceptions for the CFAO to understand the basis for the audit exceptions. 	
<p>12. After management review and approval of the draft explanatory note(s), send the draft to the contractor and request a formal written response. (CAM 4-304.6(b) transmittal letter)</p>	
<p>13. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	

MASTER AUDIT PROGRAM

A-1 Concluding Steps	WP Reference
Version 9.1, dated Feb 2024	
<p>1. If applicable, review the contractor’s reaction to the explanatory note(s). Meet with the contractor to discuss and ensure the audit team fully understands the contractor’s response. Document all interim discussions in the working papers. Invite the CFAO to meetings with the contractor whenever possible and keep them informed throughout the assignment.</p>	
<p>2. Prepare the draft audit report in accordance with CAM Chapter 10 and 8-505.</p> <ul style="list-style-type: none"> • <u>CAP changes (section C)</u>: The “Report on Proposed” section of a cost impact proposal audit report should include a summary description of the CAP change and the effective date of the CAP change. The changed CAP should be described and categorized as either a required change (equitable adjustment), unilateral change (no increased costs to the Government), or desirable change that was deemed desirable and not detrimental to the Government by the CFAO (equitable adjustment). • <u>CAS noncompliance (section D)</u>: The “Report on Proposed” section of a cost impact proposal audit report should include a summary description of the CAS noncompliance, the audit report number under which the CAS noncompliance was reported, and the dates during which the contractor was in noncompliance. The date on which the contractor corrected the CAS noncompliance should also be reported, if the contractor has completed corrective action. • The report should include the appropriate Exhibit of Contractor’s Proposed Contract Price Adjustment and Schedule of Audit Recommended Costs. • The “Contractor’s Reaction” section of the audit report note(s) should provide a statement that the contractor either agreed or disagreed with the auditor’s conclusions and the basis for any disagreement. • Prepare appropriate “Auditor’s Response” comments, if warranted. • A complete copy of the contractor’s written reaction comments, if provided, should be included as an Appendix. 	
<p>3. Obtain supervisory review of the draft report and supporting documentation.</p>	
<p>4. After obtaining supervisory review and approval, communicate with the CFAO(s):</p> <ul style="list-style-type: none"> • Brief the CFAO on significant questioned cost, increased cost to the Government, material noncompliances or other significant and/or complex findings/issues; • The auditor should be alert to the potential significance of interest and offer to provide assistance to the CFAO in calculating interest due to the Government once the CFAO makes the final determination on the cost impact proposal audit report. (CAM 8-503.4) 	

MASTER AUDIT PROGRAM

A-1 Concluding Steps	WP Reference
<ul style="list-style-type: none"> • Coordinate with the CFAO to determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings. <p><i>Note: It is important to provide the level of customer service necessary to facilitate the resolution of the cited CAS noncompliance and update the status of the assignment record in DMIS as the ACO/CFAO works through the resolution process.</i></p>	
<p>5. After management approval, conduct and document an exit conference with contractor representatives and the ACO/CFAO to discuss the final results and recommended corrective action, if required.</p>	
<p>6. 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 the DFARS business system(s) exists. If so, open a Business System Deficiency assignment (Activity Code 11090) to report the significant deficiency and submit it to the contractor for comment.</p>	
<p>7. Finalize the audit report, including all documentation.</p>	
<p>8. Complete the 19500 tab of work paper 02 Computation of Dollars Audited Cost Savings and ensure the amounts and status of the assignment are updated in DMIS as needed.</p>	
<p>9. Update the permanent files in accordance with CAM 4-405.</p>	