

Master Document – Audit Program

Activity Code 19500	Cost Impact Statement (Price Adjustment)
Version 4.17, dated April 2016	
B-1	Planning Considerations
Audit Specific Independence Determination	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 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 work paper. For example, an FAO may add additional auditors (e.g. FAO technical specialist) 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>To provide general objectives to be considered in auditing cost impact proposals. Additional detailed audit steps should be prepared to satisfy unique contractor circumstances or proposal submissions. This program does not replace auditor judgment. It should be tailored to the audit scope of the particular assignment. The revised audit program must reflect a mutual understanding between the auditor and supervisor as to the scope required to meet audit standards and objectives.</p>	
Other Planning Considerations	
<p>Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.</p>	
References	
<ol style="list-style-type: none">1. CAM 10-809, Audit Reports - Cost Impact Statements2. CAM 8-500, Audit of Cost Impact Proposals Submitted Pursuant to the Cost Accounting Standards Clause3. CAS Board Regulations (Especially 9903.201-6 and 9903.306)4. DoD CAS Working Group Guidance Papers (WG 76-4, 76-5, 76-6, and 76-9)5. CAS Clauses: FAR 52.230-2, FAR 52.230-3, FAR 52.230-4, FAR 52.230-5, and FAR 52.230-66. FAR 30.604, and FAR 30.605	

Master Document – Audit Program

B-1	Preliminary Steps	WP Reference
Version 4.17, dated April 2016		
	1. Determine the reason for the proposed cost impact (see clauses below). Review the pertinent disclosure statement (19100) and/or noncompliance (19200) audit report 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), who is usually the ACO, final noncompliance determination. If this determination is not contained in the permanent file, obtain a copy before proceeding with the examination.	
	a. FAR 52.230-2(a)(4)(i). Required change. Equitable adjustment under CAS clause.	
	b. FAR 52.230-2(a)(4)(ii) and -2(a)(5). Unilateral change. No increased cost to the Government in the aggregate.	
	c. FAR 52.230-2(a)(4)(iii) and -3(a)(3)(ii). Desirable change. Change with which the Government agrees. Equitable adjustment under CAS clause.	
	d. FAR 52.230-2(a)(5), -3(a)(4), and -4. Noncompliance with CAS or disclosed practice. Downward adjustment for any increased cost in the aggregate.	
	2. Diagram the chronological events showing all pertinent dates, such as effective date, applicability date, date of triggering contract, CFAO determination dates, etc.	
	3. Determine if separate impacts for each change have been provided. When multiple changes are involved separate impacts should be calculated for each change. If this is not practical and changes are combined, coordinate this with the contractor and CFAO.	
	4. Coordinate with contractor and obtain a walk-through of the proposal to gain an understanding of the basis of the proposal and related supporting documentation. Invite the cognizant procurement and administrative contracting officers. As part of this walk-through, require the contractor to identify any information needed to complete the adequacy review.	
	5. Evaluate the adequacy of the contractor's proposal. If the submission is not adequate, advise the CFAO and recommend that a proper proposal be obtained.	
	a. Assess the adequacy of the proposal’s overall submission, assumptions/methodology, and calculations using the Adequacy Criteria Tool at w/p B-04.	

Master Document – Audit Program

b. Verify that the proposal was approved by an appropriate level of management.	
c. A General Dollar Magnitude (GDM) proposal should contain, at a minimum, an estimate of the aggregate impact on CAS-covered contracts by contract type and by various departments/agencies.	
d. A detailed cost impact proposal should have data at the contract/subcontract level that should include, where appropriate:	
(1) fixed price,	
(2) target/estimated cost,	
(3) accumulated cost to date,	
(4) estimate to complete,	
(5) target profit or fee,	
(6) sharing ratio,	
(7) ceiling price,	
(8) period of performance,	
(9) profit or fee impact,	
(10) total increased/(decreased) cost to the Government.	
e. Verify the universe of CAS-covered contracts and subcontracts that will be affected by the change or noncompliance.	
(1) Evaluate the adequacy of the contractor's procedures for identifying accurately and completely all contracts and subcontracts containing the CAS clause.	
(2) Perform limited tests of contract listings to assure continuing effectiveness of the contractor's system.	
(3) For smaller contractors, test the listing of CAS-covered contracts against FAO files of active cost reimbursable contracts and listing of CAS-covered fixed price procurement actions available within DoD.	
(4) Alternatively, try to obtain confirmation from the CFAO that the proposal includes all affected prime contracts and subcontracts.	
6. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management's understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted	

Master Document – Audit Program

<p>should be documented in the working papers.</p>	
<p>7. 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 noncompliances, 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 estimating or accounting system deficiencies),• relevant aspects of the contractor and its environment• risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements),• other known risk factors• the audit team’s understanding of relevant internal controls• inquiries to the contractor regarding its fraud management plans and controls. <p>Document fraud risk factor/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If Fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none">• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (http://gao.gov/products/GAO-12-331G)• AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf)• DoDIG’s Contract Audit Fraud Scenarios and Resources website (http://www.dodig.mil/resources/fraud/resources.html) <p>(To access the Sources of Fraud Indicators, copy and paste the web address</p>	

Master Document – Audit Program

<p>shown above into the address block in Internet Explorer.)</p>	
<p>8. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures:</p> <ol style="list-style-type: none"> a. During the entrance conference, 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. b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.) 	
<p>9. 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 under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <ol style="list-style-type: none"> a. During the entrance conference: <ul style="list-style-type: none"> • 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. • Ask contractor management if 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. If yes, have 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. b. If the review of the perm file or the contractor identifies relevant 	

Master Document – Audit Program

<p>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 CAC 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, issued by the CAC, 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. <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 contractor’s 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 address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)</p>	
<p>10. Hold an entrance conference to discuss the cost impact proposal and obtain additional information or data. 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. If applicable, include a follow up with contractor management on:</p> <ul style="list-style-type: none"> a. corrective actions that address previous DCAA audit findings 	

Master Document – Audit Program

<p>and recommendations, b. other studies or audits that impact the subject matter under audit.</p>	
<p>11. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>12. Examine the ICQ or relevant ICAPS (whichever is applicable) to obtain information regarding accounting system adequacy, identify any known outstanding system deficiencies, and perform preliminary assessment of risk. Document results.</p>	
<p>13. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.</p>	
<p>14. Document the impact of the current assessment of the contractor's internal control structure (control environment, accounting system, and relevant policies, procedures, and practices) on the audit scope.</p>	
<p>15. Coordinate the audit report due date with the CFAO based on the results of preliminary audit steps. Request specialist assistance regarding the evaluation of estimates to complete, if needed.</p>	
<p>16. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor's financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor's financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.</p>	
<p>17. Electronically transmit an acknowledgement/notification to the ACO/CFAO notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p>	

C-1	Change In Accounting Practice	WP Reference
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Master Document – Audit Program

Version 4.17, dated April 2016	
1. Determine the basis of the cost impact amounts for the change and for the contractor's direct costs in the cost impact proposal.	
2. For changes to accounting practices, verify the completeness of the cost impact proposal. Ensure that:	
a. only those contracts and subcontracts awarded prior to the change are included in the cost impact proposal.	
b. the cost impact extends through the performance period of all applicable CAS-covered contracts.	
c. for changes required to implement a new standard, verify that only those contracts and subcontracts awarded prior to the standard's effective date are included in the proposal.	
3. Perform a yearly reconciliation of firm and anticipated business base as identified in an appropriate forecast, to the direct costs in the cost impact proposal. This provides a check on the contractor's calculations and should also reveal any impact resulting from changes other than the identified change in accounting practice (e.g., increased efficiency). Add additional audit steps if necessary.	
a. For GDM proposals, this would be done at the contract-type level.	
b. For detailed cost impact proposals, this would be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	
4. Compare actual direct costs to direct costs in the cost impact proposal to determine any significant differences. Differences may indicate contracts were shifted to different timeframes or other contracts may have been added or deleted since the time the cost impact proposal was prepared. Add additional audit steps, if necessary.	
a. For GDM proposals, this would be done at the contract-type level.	
b. For detailed cost impact proposals, this would be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	
5. Reconcile the cost shift by year to identify the overall impact on non-CAS covered contracts and anticipated business. This should not be done on an individual contract basis, but should be sufficient to identify the impact on commercial and other Government work separately.	
6. Verify the proposed cost impact calculations on a sampling of contracts and subcontracts. The following 5-step process (steps a through e) should be used to calculate audit recommended cost impacts. NOTE: Steps d and e (below) should be omitted for required	

Master Document – Audit Program

<p>and desirable accounting practice changes since increased costs may be allowed under those circumstances. Steps d and e must be performed in all other instances since payment of aggregate increased costs by the Government is prohibited.</p>	
<p>a. For each CAS-covered contract selected for evaluation, compute the increase/decrease in cost estimates or cost accumulations due to the accounting practice change as follows:</p>	
<p>(1) Calculate the difference between the estimated cost to complete (ETC) using the old accounting practice and the ETC using the new practice, from the date of the change to the end of the period of performance on the contract for all CAS covered contracts.</p>	
<p>(2) Consider the impact on negotiated profit and fee for all CAS covered contracts. Evaluate contract terms as necessary to ensure that all profit negotiated based on estimated or accumulated costs is identified and adjusted to ensure that it is not enlarged beyond that contemplated by the parties to the contract at negotiations.</p>	
<p>b. Combine the increases/(decreases) in cost accumulations and/or contract prices within each contract group (flexibly-priced and FFP).</p>	
<p>c. Calculate the increased/(decreased) cost paid by the Government for each contract group, using the net impact on cost accumulations or contract prices from step b. above.</p>	
<p>(1) For flexibly priced contracts: Increased costs to the Government occur when more costs are accumulated as the result of an accounting practice change. Conversely, decreased costs to the Government occur when fewer costs are accumulated as a result of an accounting practice change.</p>	
<p>(2) Fixed price contracts: Increased costs to the Government occur when fewer costs are accumulated as a result of an accounting practice change. Decreased costs to the Government occur when more costs are accumulated as a result of an accounting practice change.</p>	
<p>d. Combine increased and decreased costs to the Government (including profit/fee) for all contract groups to determine the aggregate increased or decreased costs paid by the Government as a result of the accounting practice change.</p>	
<p>e. Considering the settlement alternatives available to the CFAO, develop recommendations which will identify appropriate alternatives to the Government. In the case of a Unilateral change the recommendations must identify appropriate alternatives to</p>	

Master Document – Audit Program

preclude payment by the Government of the aggregate increased costs [9903.201-6(b) and 9903.306].	
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D-1	Noncompliance - Price Adjustment	WP Reference
Version 4.17, dated April 2016		
1.	Determine the basis of the cost impact amounts for the noncompliance and for the contractor’s direct costs in the cost impact proposal. Compare the basis to source documents. If more current information is available, evaluate the effect on the cost impact proposal.	
2.	For noncompliances, verify that the cost impact was computed from the date the noncompliance first occurred until the date the noncompliance was corrected. Identify whether the noncompliant practice is an estimating and/or accumulating CAS noncompliance.	
3.	<i>Estimating Noncompliance.</i> Evaluate whether the impact on all significant fixed-priced work negotiated during the period of noncompliance is included in the cost impact proposal for an estimating noncompliance. Determine if the shift of work from anticipated to firm requirements in successive forecasts can be used to identify work negotiated during the period of noncompliance. Determine if the forecasts include all significant work priced during the period of noncompliance by comparing the forecasted business base to the recorded business base. Add additional audit steps if necessary.	
a.	For GDM proposals, this would be done at the contract-type level.	
b.	For detailed cost impact proposals, this would be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	
4.	<i>Accumulating Noncompliance.</i> If the contractor calculated the cost shifts resulting from the accumulating noncompliance for all work during the period of noncompliance, then reconcile the cost shift by year to identify the overall impact on non-CAS covered contracts and anticipated business. This should be sufficient to identify the impact by contract type for CAS covered work, and identify the impact on commercial and other Government work separately. Cost shifts for work that is not CAS covered should not be included in the calculation of the cost impact.	
5.	Verify the proposed cost impact calculations on a sampling of contracts and subcontracts. The following 5-step process (steps a through e) should be used to calculate audit recommended cost impacts.	

Master Document – Audit Program

<p>a. For each CAS-covered contract selected for examination, compute the increase/decrease in cost estimates or cost accumulations due to the noncompliance as follows:</p>	
<p>(1) For noncompliances in cost accumulation: Calculate the difference between costs accumulated using the noncompliant accounting practice and costs that would have been accumulated had a compliant practice been used for flexibly priced CAS covered contracts. This calculation should include only the periods during which the contractor accumulated costs using the noncompliant practice.</p>	
<p>(2) For noncompliances in cost estimating: Calculate the difference between the contract price estimated/negotiated using the noncompliant practice and what the contract price would have been had a compliant practice been used for all CAS covered contracts.</p>	
<p>(3) Consider the impact on negotiated profit and fee for all CAS covered contracts. Evaluate contract terms as necessary to ensure that all profit negotiated based on estimated or accumulated costs is identified and adjusted to ensure that it is not enlarged beyond that contemplated by the parties to the contract at negotiations.</p>	
<p>b. Combine the increases/(decreases) in cost accumulations and/or contract prices within each contract group (flexibly-priced and FFP).</p>	
<p>c. Calculate the increased/(decreased) cost paid by the Government for each contract group, using the net impact on cost accumulations or contract prices from step b. above.</p>	
<p>(1) For flexibly priced contracts: Increased costs to the Government occur when more costs are accumulated as the result of a CAS noncompliance. Conversely, decreased costs to the Government occur when fewer costs are accumulated as a result of a CAS noncompliance.</p>	
<p>(2) Fixed price contracts: Increased costs to the Government occur when higher costs were estimated and negotiated as a result of a noncompliant estimating practice. Decreased costs to the Government occur when fewer costs were estimated and negotiated as a result of a noncompliant estimating practice.</p>	

Master Document – Audit Program

<p>d. Combine increased and decreased costs to the Government (including profit/fee) for all contract groups to determine the aggregate increased or decreased costs paid by the Government as a result of the CAS noncompliance.</p>	
<p>e. Considering the settlement alternatives available to the CFAO, develop recommendations which will identify appropriate alternatives to preclude payment by the Government of the aggregate increased costs [9903.201-6(d) and 9903.306]. The recommendations should include comments on the applicability of interest which is required by FAR 52.230-2(a)(5).</p>	

A-1	Concluding Steps	WP Reference
Version 4.17, dated April 2016		
1.	Summarize results of audit and discuss with the Supervisor or the FAO technical specialist.	
2.	Prepare report in accordance with CAM 10-809	
3.	Hold an exit conference with the contractor in accordance with CAM 4-304.	
4.	Auditors should document and communicate with the contracting officers upon the completion of our audit:	
a.	Brief the contracting officer on significant questioned, unsupported, unresolved costs or other significant and/or complex findings/issues, and/or	
b.	Coordinate with the contracting officer to find out and determine if inclusion of detailed explanatory notes in our report would serve a useful purpose when there are no findings.	
5.	Update permanent files.	