

Master Document – Audit Program

Activity Code 19500	Cost Impact Statement (Price Adjustment)
Version 4.10, dated September 2012	
B-1	Planning Considerations
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>	
References	
<ol style="list-style-type: none"> 1. CAM 10-809, Audit Reports - Cost Impact Statements 2. CAM 8-500, Audit of Cost Impact Proposals Submitted Pursuant to the Cost Accounting Standards Clause 3. 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 52.230-6 6. FAR 30.604, and FAR 30.605 	

B-1	Preliminary Steps	WP Reference
Version 4.10, dated September 2012		
	<ol style="list-style-type: none"> 1. Review the open MRD's for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for "MRDs, AGMs, & AMGMs" 2. Determine the reason for the proposed cost impact (see clauses below). Include copies of pertinent audit reports, such as the noncompliance report, in the audit file. Obtain a copy of the cognizant Federal agency official's (CFAO), who is usually the ACO, final noncompliance determination, if applicable. 	

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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.	
3. Diagram the chronological events showing all pertinent dates, such as effective date, applicability date, date of triggering contract, CFAO determination dates, etc.	
4. 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.	
5. 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.	
6. 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. Verify that the proposal was approved by an appropriate level of management.	
b. A General Dollar Magnitude (GDM) proposal should contain an estimate of the aggregate impact on CAS-covered contracts by contract type and by various departments/agencies.	
c. 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,	

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(6) sharing ratio,	
(7) ceiling price,	
(8) period of performance,	
(9) profit or fee impact,	
(10) total increased/(decreased) cost to the Government.	
d. 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.	
<p>7. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor's environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team's understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as characteristics and types of activity associated with illegal expenditures and acts for specific audit areas in CAM Figure 4-7-5. See "Principal Sources of Fraud Indicators" below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p>	

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<p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc. • CAM Figure 4-7-5. <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
<p>8. 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.</p>	
<p>9. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>10. 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>11. 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>12. 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>13. 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>14. 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</p>	

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<p>adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.</p>	
<p>15. 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
Version 4.10, dated September 2012		
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	

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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 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.	
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:	
(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.	
(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.	
b. Combine the increases/(decreases) in cost accumulations and/or contract prices within each contract group (flexibly-priced and FFP).	
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.	
(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	

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accumulated as a result of an accounting practice change.	
(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.	
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.	
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 preclude payment by the Government of the aggregate increased costs [9903.201-6(b) and 9903.306].	

D-1	Noncompliance - Price Adjustment	WP Reference
Version 4.10, dated September 2012		
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	

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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.	
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:	
(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.	
(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.	
(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.	
b. Combine the increases/(decreases) in cost accumulations and/or contract prices within each contract group (flexibly-priced and FFP).	
c. Calculate the increased/(decreased) cost paid by the Government for each contract group, using the net impact on	

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cost accumulations or contract prices from step b. above.	
(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.	
(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.	
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.	
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).	

A-1	Concluding Steps	WP Reference
Version 4.10, dated September 2012		
	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. Update permanent files.	