

**Master Document – Audit Program**

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| <b>Activity Code 19416</b>  | <b>Incurred Insurance Cost and CAS 416 and FAR Compliance</b> |
| <b>Version 3.9, dated April 2016</b>  |   |
| <b>B-1</b>  | <b>Planning Considerations</b>                                |
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| <b>Audit Specific Independence Determination</b>  |   |
| <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>  |   |
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| <p><b>Note to DCMA/DCAA:</b> Portions of the review/audit steps which are covered in other assignments (e.g. incurred cost, Disclosure Statement, and internal control audits) should be referenced at the appropriate place in this program. Also, the team may adjust the steps to meet its specific needs. Those steps deemed unnecessary should be lined out using the strikethrough function and the auditor(s) should include a brief explanation why the step is unnecessary directly below the lined out step or in a separate working paper as necessary.</p>  |   |
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| <p><b>Note to Auditor:</b> The joint DCMA/DCAA review/audit steps included in this program are limited to the evaluation of group insurance costs (primarily group health and group life insurance) and do not cover liability insurance costs (e.g., workers’ compensation, general liability, product liability, etc.) or casualty insurance costs (e.g., fire insurance, business interruption insurance, and insurance on the lives of officers and owners). The audit of incurred insurance costs and compliance with CAS 416 must include the evaluation of costs of all types of insurance which are significant at the contractor. Therefore, audit steps covering liability and casualty insurance costs are included with the available sections on the Planning/Standards tab and should be selected for incorporation into this review/audit based on the risk assessment. Section A, Preliminary Review/Audit Steps including the risk assessment procedures should be modified to cover all types of insurance and not just group insurance. The steps for liability and casualty insurance costs have not yet been adopted as joint review steps; therefore, the auditor should coordinate with the DCMA insurance/pension specialist team member regarding responsibility for performing the steps related to those costs. DCAA is responsible for performing contract audit responsibilities related to CAS; therefore, all steps related to CAS compliance should be performed by the DCAA team member with the assistance of the DCMA insurance/pension specialist when appropriate.</p> |   |

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| When a joint review is not performed due to low audit risk, this audit program should be modified as appropriate based on the risk assessment.  |
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| <b>Purpose and Scope</b>  |
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| The scope of the program must be tailored to the requirements of each review/audit, based on the types of group insurance coverage, the methods of coverage (i.e., purchased or self-insurance), review/audit risk assessment, prior review/audit coverage, etc. Accordingly, the ultimate review/audit program should reflect a mutual understanding between the team captain, the auditor, and the supervisor as to the scope required to meet auditing standards as well as DCMA and DCAA objectives for the group insurance review/audit assignment.  |
| The purpose of the review/audit is to determine whether a contractor's group insurance costs claimed on Government contracts meet the measurement, assignment and allocability requirements of Cost Accounting Standard 416, "Accounting for Insurance Costs," and are allocable, reasonable, and allowable per the applicable provisions of FAR Subpart 31.2. DCAA and DCMA have a joint responsibility for the review/audit of group insurance cost; thus, the review/audit scope should be established accordingly. Guidance contained in CAM 5-1303 should be read by the auditor prior to the start of the audit.  |
| Group insurance costs represent a significant Government contract cost item, and include different types of group insurance subject to review/audit. Examples of types of group insurance costs are group health, group life, and group disability coverage. Each type of group insurance presents unique problems and must be considered on an individual basis. The review/audit program steps are intended to cover all aspects of group insurance focusing on the allowability and allocability of such costs and compliance with appropriate Cost Accounting Standards and FAR Subpart 31.2. Full implementation of the review/audit steps requires (1) ability to measure group insurance costs, (2) knowledge of the basic concepts of group insurance accounting, (3) familiarity with group insurance terminology, (4) understanding of CAS 416 and FAR Parts 28 and 31, (5) knowledge of postretirement benefit (PRB) accounting principles in FASB Statement No. 106, (6) understanding of group insurance plans and provisions, (7) understanding of the methods used for filing and paying claims, and (8) understanding of IRS Form 5500 and related schedules. |
| Although this review/audit program includes references to cost containment and risk management measures, and performance of the detailed review/audit steps could result in recommendations involving the reasonableness of group insurance costs and the economy and efficiency of contractor group insurance operations, other types of review/audits may be conducted which also result in reasonableness and economy and efficiency determinations. For example, as part of a compensation evaluation, a determination of the reasonableness of employees' group insurance coverage would be one of the considerations in determining the overall reasonableness of the compensation plan. It is  |

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| <p>important that the various types of review/audits be integrated in the program plan to assure appropriate, comprehensive coverage of contractor group insurance costs.</p>  |
| <p>This joint review/audit program is not all inclusive. Supplement the program as necessary to cover additional group insurance areas unique to individual contractors.</p>   |
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| <b>Pre-planning Team Meeting</b>   |
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| <p>The DCMA/DCAA team members will coordinate on the nature and objectives of the audit/review, noting any specific requirements and select a team leader. DCAA will be responsible for performing contract audit responsibilities related to CAS (with the assistance of the DCMA insurance/pension specialist when required). The team will also identify and assign a team member responsible for performing review/audit steps that can be performed by either agency. Normally DCMA serves as team leader; however, DCAA can serve as team leader if both agencies agree (See DFARS 242.7303(b)).</p> |
| <p>The team leader will prepare a consolidated request to the contractor listing the data and documents necessary to accomplish the joint review/audit objectives. The team leader will issue the final report to the cognizant Federal agency official (CFAO), who is usually the ACO.</p>  |
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| <b>Reporting Joint Review/Audit Results</b>  |
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| <p>Each agency will perform their portion of the joint review/audit program; however, only one joint report will be issued to the CFAO. The team leader will issue the joint report incorporating the results of the other team member's report and attach a copy of the other team member's report to the joint report. The team leader will ensure that team members or associated Agency receive copies of the joint report.</p>  |
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| <b>Other Planning Considerations</b>   |
| <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>   |
| <b>References</b>  |
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| <p>1. FAR Part 28, Bonds and Insurance and FAR Part 31, Contract Cost Principles and Procedures</p>  |
| <p>2. FAR 31.205-19, Insurance and Indemnification</p>   |
| <p>3. FAR 31.205-6(o), Postretirement Benefits Other Than Pensions</p>   |

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| 4. Statement of Financial Accounting Standards No. 106  |
| 5. CAS 416, Accounting for Insurance Costs  |
| 6. CAM 5-1303, Audit of Contractor Insurance Cost and Pension Costs   |
| 7. DFARS 242.73, Contractor Insurance/Pension Review (CIPR)   |
| 8. CAM 8-416, Cost Accounting Standard 416 – Accounting for Insurance Cost                                  |
| 9. DCMA Guidebook, located under “eBusiness” at <a href="http://www.dema.mil">http://www.dema.mil</a>       |
| 10. Actuarial Standards of Practice (ASOP) of the Actuarial Standards Board, ie, ASOP #5, #9, #13, #20, #25 |
| 11. CAM Appendix D, Specialist Assistance   |
| 12. Selected Areas of Cost Guidebook, Chapter 34 – Insurance Costs  |

| <b>B-1</b>                           | <b>Preliminary Steps</b>   | <b>Responsible Agency</b> | <b>WP Reference</b> |
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| <b>Version 3.9, dated April 2016</b> |  |                           |                     |
| 1.                                   | Evaluate the following guidance and regulations:   |                           |                     |
| a.                                   | DCMA Guidebook.  | DCMA                      |                     |
| b.                                   | CAM 8-416, Chapter 34 of the Selected Areas of Cost Guidebook, and any recent Headquarters guidance not incorporated into CAM.   | DCAA                      |                     |
| c.                                   | FAR 31.205-6(o), FAR 31.205-19, FAR 28.3, DFARS 242.73 and CAS 416.  | DCMA and DCAA             |                     |
| 2.                                   | 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. | DCAA                      |                     |
| 3.                                   | Electronically transmit an acknowledgement/notification to the ACO/CAFO notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal   | DCAA                      |                     |

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| <p>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>   |                      |  |
| <p>4. Evaluate Part VII of the contractor’s CAS Disclosure Statement to determine disclosed practices for handling insurance. Determine if the contractor’s practices have changed since the last joint review or CAS 416 compliance audit. If changes have occurred, document the file and adjust scope of audit accordingly.</p>   | <p>DCMA and DCAA</p> |  |
| <p>5. Check the permanent files (including audit leads from other relevant audits), previous joint review and CAS 416 reports and related working papers on contractor’s group insurance cost to determine what data are available, what steps were done in the past, and the results of those steps. This will identify areas of high risk and/or areas where limited or no testing is necessary.</p>   | <p>DCMA and DCAA</p> |  |
| <p>6. 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> <ul style="list-style-type: none"> <li>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.</li> <li>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.)</li> </ul> |                      |  |

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| <p>7. 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> <p>a. During the entrance conference:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li></ul> <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• Document the results of the determination in writing.</li><li>• 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</li></ul> |  |  |
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| <p>reports.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> <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"> <li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li> <li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li> </ul> <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>8. Hold a planning meeting prior to the entrance conference to develop the entrance conference agenda and identify data to obtain during the entrance conference including the following (if not available in the permanent files):</p>   | <p>DCMA and DCAA</p> |  |
| <p>a. Provisions of the group insurance plans to include insurance policies, insurance agreements, summary plan descriptions, etc.</p>   |                      |  |
| <p>b. Contractor’s internal and independent auditor’s report on group insurance plan activities.</p>   |                      |  |
| <p>c. Management and group insurance carrier reports (to identify any potential problem areas. These reports evaluate existing programs, recommend changes,</p>  |                      |  |

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| determine current costs, and disclose cost composition.)   |               |  |
| d. IRS Form 5471, Information Return with Respect to a Foreign Corporation, and Schedules M, N, and O (to assist in determining if the contractor’s insurance carrier(s) is a captive insurer or fronting insurance company.)  |               |  |
| e. Copies of contractor’s IRS Form 5500 which details insurance reserves when reserves are held by the carrier.  |               |  |
| f. A listing from the contractor detailing the group insurance coverage. (See Insurance Summary Schedule in Other Audit Guidance)  |               |  |
| g. Documentation related to competitive quotations for insurance coverage if the contractor obtains these periodically.  |               |  |
| 9. Hold an entrance conference and establish a contractor contact for the group insurance review. (See CAM 4-302.) Obtain data needed to conduct the review/audit. (See 4 above). If applicable, include a follow up with contractor management on: <ul style="list-style-type: none"> <li>• corrective actions that address previous DCAA audit findings and recommendations (step 7),</li> <li>• other studies or audits that impact the subject matter under audit (step 8).</li> </ul> | DCMA and DCAA |  |
| 10. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.  | DCAA          |  |
| 11. 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 should be documented in the working papers.                         | DCAA          |  |
| 12. 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,   | DCAA          |  |



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| <p>that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"><li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),</li><li>• relevant aspects of the contractor and its environment</li><li>• 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),</li><li>• other known risk factors</li><li>• the audit team’s understanding of relevant internal controls</li><li>• inquiries to the contractor regarding its fraud management plans and controls.</li></ul> <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"><li>• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (<a href="http://gao.gov/products/GAO-12-331G">http://gao.gov/products/GAO-12-331G</a>)</li><li>• AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (<a href="http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf">http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf</a>)</li></ul> |  |  |
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| <ul style="list-style-type: none"> <li>• DoDIG’s Contract Audit Fraud Scenarios and Resources website<br/>(<a href="http://www.dodig.mil/resources/fraud/resources.html">http://www.dodig.mil/resources/fraud/resources.html</a>)</li> </ul> <p>(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)</p>   |      |  |
| <p>13. In planning the audit, consider the impact of SAS 70, <i>Reports on the Processing of Transactions by Service Organizations</i>, as amended by SAS 88, <i>Service Organizations and Reporting on Consistency</i>, on audit scope by performing the following steps:</p>   | DCAA |  |
| <p>a. Determine if the contractor (user organization) uses any service organizations.</p>  | DCAA |  |
| <p>b. If service organizations are used, determine if the transactions processed by the service organization are material.</p>   | DCAA |  |
| <p>c. If transactions are material, determine if the service organization is part of the user organization’s information system.</p>   | DCAA |  |
| <p>d. If so, determine the degree of interaction between the service organization and the user organization. If high (as in the case of payroll processing, where the service organization receives time and attendance information from the user organization, prepares the payroll, writes the checks, etc. and then the user organization performs tests of the processed payroll for accuracy), there is no need to obtain an understanding of the service organization’s controls. If low (as when a trustee manages pension assets):</p> | DCAA |  |
| <p>(1.) Obtain and analyze the service agreement (contract)</p>  | DCAA |  |
| <p>(2.) Obtain and analyze the service auditor’s report (if any) referring to the guidance in CAM 4-1000, “Relying on the Work of Others.”</p>   | DCAA |  |
| <p>(3.) If necessary, obtain and analyze other information available at the user organization including user manuals, system descriptions, technical manuals, and other policies and procedures.</p>   | DCAA |  |

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| (4.) If necessary, obtain and analyze any reports prepared by the user or service organizations' internal auditors relating to internal controls over transactions and processes.  | DCAA     |  |
| (5.) If necessary and with appropriate permission, visit the service organization and perform procedures or request an assist audit.   | DCAA     |  |
| e. Summarize effects of audit of service organizations on scope of current audit.  | DCAA     |  |
| 14. Perform and document risk assessment:  |          |  |
| a. Gain an understanding of the contractor's internal control structure by evaluating the ICQ or relevant ICAPS (whichever are applicable). In particular, determine if the contractor has a formal review program to reduce risk. If a contractor review program exists, obtain details and incorporate evaluation steps in appropriate sections of the audit program. If a contractor review program doesn't exist, include recommendation for such a program in the review/audit report. Identify any known outstanding system deficiencies. Assess control risk. | DCAA     |  |
| b. 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.   | DCAA     |  |
| c. Determine high risk areas by performing the following:  |          |  |
| (1) Using the Insurance Summary Schedule located in Other Audit Guidance and the information obtained from the contractor in preliminary step 4 f on working paper B-1 above, identify the contractor's group insurance with specific types of coverage (i.e., health, life, etc.). Determine which is self group insurance and which is purchased group insurance. Use the form to identify significant group insurance costs to be evaluated. A copy of the completed schedule should be maintained in the FAO permanent file.                                     | DCAA     |  |
| (2) Determine which provisions of CAS 416 and the  | DCMA and |  |

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| relevant FAR are material.  | DCAA          |  |
| d. From the information gathered in the preceding steps and using the materiality criteria in 48 CFR 9903.305, assess the risk and coordinate the scope of review/audit with the team leader. Assign the review/audit steps identified based on risk assessments. | DCMA and DCAA |  |

| <b>C-1</b>                           | <b>General Steps – Group Insurance</b>   | <b>Responsible Agency</b> | <b>WP Reference</b> |
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| <b>Version 3.9, dated April 2016</b> |  |                           |                     |
|                                      | 1. Determine if any change in benefits significantly increased the cost to the Government, and if so, such increase was approved by the contracting officer. (FAR 28.307-1)  | DCMA                      |                     |
|                                      | 2. Compare the amount of cost to the cost in prior years, taking into consideration population changes and standard cost trend rates. Obtain the contractor’s explanation for any significant changes.   | DCMA                      |                     |
|                                      | 3. Using the information obtained in working paper B-1, step 4.d, determine if the contractor’s insurance carrier is a captive insurer or fronting insurance company.  | DCMA or DCAA              |                     |
|                                      | a. Insurance provided by a captive insurer should generally be evaluated as self-insurance. However, if the captive insurer also sells insurance to the general public and the charge to the contractor is based on competitive market forces, the insurance should be evaluated as purchased insurance. (FAR 31.205-19 (b)) | DCMA or DCAA              |                     |
|                                      | b. If the contractor purchases insurance from a fronting insurance company, the allowable premium cannot exceed the amount which the contractor would have been allowed had it insured directly with the captive insurer plus reasonable fronting company charges. (FAR 31.205-19 (d)(2)(i) and (ii))                        | DCMA or DCAA              |                     |

| <b>D-1</b> | <b>Purchased Group Insurance</b> | <b>Responsible Agency</b> | <b>WP Reference</b> |
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| 1. Reconcile the purchased group insurance costs selected for evaluation to the insurance policy or policies.   | DCAA                       |  |  |
| 2. Verify that the premium cost applicable to a given policy term are assigned pro rata among the cost accounting periods covered by the policy term. However, if the premium is directly allocated to a single final cost objective, the premium need not be pro rated. (CAS 416.50(a)(1)(i)&(ii)) | DCAA                       |  |  |
| 3. Verify that the contractor’s insurance plan provides for the Government to share in dividends, refunds and credits paid or otherwise allowed to the contractor. (FAR 28.307-1(b))  | DCMA                       |  |  |
| 4. Verify that refunds, dividends or additional assessments are an adjustment to the cost assigned to the earliest period in which the refund or dividend is actually or constructively received (i.e., they should not be prorated). (CAS 416.50(a)(1)(i))   | DCAA                       |  |  |
| a. A confirmation to the insurer may be used to determine if a refund, dividend or other credit has been paid to the contractor.  | DCAA                       |  |  |
| b. The auditor may need to look for credits in accounts other than insurance expense; such as other income, other expense, etc.   | DCAA                       |  |  |
| c. If the group life insurance plan uses whole life insurance, determine how the cash value and related dividends are handled (if material). If the contractor retains control of these items, the insurance expense should be credited for a like amount.  | DCAA                       |  |  |
| 5. Verify that the group insurance cost is properly reduced for employee contributions.   | DCMA or DCAA               |  |  |
| 6. Ensure that the Government is not charged for payments related to premium stabilization reserves or contingencies. (CAS 416.50(a)(1)(iii) and FAR 31.205-7)  | DCAA with DCMA tech. asst. |  |  |

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| <b>E-1</b>                           | <b>Self-Insurance - Group Insurance</b> | <b>Responsible Agency</b> | <b>WP Reference</b> |
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| 1. Examine the self- group insurance plan to determine what the program covers.  | DCMA                       |  |
| 2. If insurance could be purchased, verify the self insurance charge does not exceed the cost of purchased insurance, adjusted for the contractor experience. (CAS 416.50(a)(2)(i))  | DCAA with DCMA tech. asst. |  |
| 3. If insurance could not be purchased, verify the cost is based upon the contractor’s experience, relevant industry experience, and anticipated conditions in accordance with generally accepted actuarial principles. (CAS 416.50(a)(2)(i))  | DCAA with DCMA tech. asst. |  |
| 4. Verify that the group insurance cost is properly reduced for employee contributions.  | DCMA or DCAA               |  |
| 5. Determine who administers the self- group insurance program; the contractor or a third party.   | DCMA                       |  |
| a. If the contractor administers the program, examine the procedures for paying claims. Identify and evaluate the contractor’s internal controls for administering the group insurance program. Identify and evaluate the screening process for determining an allowable claim. If the screening process is not adequate to determine allowable claims in accordance with the group insurance policy provisions, question the unauthorized claims and the related costs. | DCAA                       |  |
| b. If a third party pays the claims, there is a fee associated with the service. Determine whether the fee is in accordance with the service contract and is reasonable.   | DCMA                       |  |
| 6. Determine whether the contractor is properly accruing the cost of claims incurred in the current year that are paid in the next year (referred to as an IBNR reserve).  | DCMA                       |  |
| 7. Where the liability is composed of reasonably certain payments made more than one year after the loss is incurred, e.g. disability benefits, ensure that the loss used to calculate the self-group insurance cost does not exceed the present value of such payment in accordance with CAS 416.50(a)(3)(ii).  | DCAA                       |  |
| 8. For self-insurance of retirees that is not funded, verify that the projected average loss is represented by the pay-as-you-go (PAYGO) amount (i.e., actual losses). (CAS 416.50(a)(2)(iii))   | DCAA                       |  |

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| <b>F-1</b>                           | <b>Funding Group Insurance</b>   | <b>Responsible Agency</b>  | <b>WP Reference</b> |
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| <b>Version 3.9, dated April 2016</b> |  |                            |                     |
| 1.                                   | Ensure that payments to a reserve or fund, which are treated as deposits in accordance with generally accepted accounting principles (i.e., reportable as such in published financial statements), are treated as deposits for determining group insurance costs.(CAS 416.50(a)(1)(iii)) | DCAA with DCMA tech. asst. |                     |
| 2.                                   | Ensure that payments to a reserve or fund which are not treated as deposits in accordance with generally accepted accounting principles, are treated as deposits for determining group insurance costs unless all of the following conditions are met: (CAS 416.50(a)(1)(iv))            | DCAA with DCMA tech. asst. |                     |
| a.                                   | The objectives of the reserve or fund are clearly stated in writing. (CAS 416.50(a)(1)(iv)(A))   | DCAA with DCMA tech. asst. |                     |
| b.                                   | The cost is actuarially determined and consistent with the objectives of the fund. (CAS 416.50(a)(1)(iv)(B))   | DCAA with DCMA tech. asst. |                     |
| c.                                   | Payments to the fund are made in a systematic and consistent manner. (CAS 416.50(a)(1)(iv)(C))   | DCAA with DCMA tech. asst. |                     |
| d.                                   | If benefits are provided from a source other than the reserve or fund, contributions to the reserve or fund are reduced accordingly. (CAS 416.50(a)(1)(iv)(D))   | DCAA with DCMA tech. asst. |                     |

| <b>G-1</b>                           | <b>Allocation of Insurance Cost – Group Insurance</b>   | <b>Responsible Agency</b> | <b>WP Reference</b> |
|--------------------------------------|---|---------------------------|---------------------|
| <b>Version 3.9, dated April 2016</b> |   |                           |                     |
| 1.                                   | Determine whether group insurance costs are allocated to cost objectives based on causal or beneficial relationship: (CAS 416.40(b))                  | DCAA                      |                     |
| a.                                   | For self-insurance, verify that where actual losses are recognized as an estimate of the projected average loss, losses which are incurred by a given | DCAA                      |                     |

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| segment are identified to that segment. (CAS 416.50(b)(1))   |      |  |
| b. Verify that group insurance costs are allocated on the basis of the factors used to determine the premium, assessment, refund, dividend or self-insurance charge (CAS 416.50(b)(2)), or   | DCAA |  |
| c. If group insurance costs of a segment are combined with costs of other home office indirect cost pools, determine that the resulting group insurance cost allocated to segments is substantially the same as it would have been had the cost been accumulated by segment. (CAS 416.50 (b)(2)) | DCAA |  |

| <b>H-1</b> | <b>Postretirement Benefit (PRB) Costs</b>   | <b>Responsible Agency</b>  | <b>WP Reference</b> |
|------------|---|----------------------------|---------------------|
|            | <b>Version 3.9, dated April 2016</b>  |                            |                     |
|            | <i>The following steps apply if the contractor uses accrual accounting to measure and assign PRB costs.</i>   |                            |                     |
|            | 1. Determine whether the actuarial assumptions used to compute the terminal funding or SFAS 106 amounts are reasonable.   | DCMA                       |                     |
|            | 2. For accrual accounting other than terminal funding verify that:  |                            |                     |
|            | a. The cost is measured and assigned in accordance with SFAS 106. (FAR 31.205-6(o)(2)(iii))   | DCMA                       |                     |
|            | b. The assigned cost is funded by the time set for filing the Federal income tax return. (FAR 31.205-6(o)(3))   | DCMA or DCAA               |                     |
|            | c. If the contractor does not contribute funds to the PRB trust within 30 days of each quarter, the amount of increased costs caused by the delay in funding is excluded from claimed PRB costs. (FAR 31.205-6(o)(4)) | DCMA or DCAA               |                     |
|            | d. The amount added to the fund is not greater than an amount required to apportion the cost of the insurance coverage fairly over the working lives of the active employees in the plan. (CAS 416.50(a)(1)(v)(C))    | DCAA with DCMA tech. asst. |                     |
|            | 3. Ensure that the contractor has no right of recapture of the reserve or fund as long as any active or retired   | DCAA                       |                     |



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| participant remains alive, unless the interests of such remaining participants are satisfied through adequate reinsurance or otherwise. (CAS 416.50(a)(1)(v)(B))   |                            |  |
| 4. If moneys do revert or inure to the contractor, ensure that the Government receives an equitable share of the credit calculated in accordance with FAR 31-205-6(o)(6).  | DCMA or DCAA               |  |
| 5. If the contractor uses pension assets to fund PRB costs, ensure that the Government receives a credit (i.e., that PRB costs are reduced by the amount funded by pension assets) and that the contractor established an advance agreement with the Government to permit PRB costs to be paid using pension assets. (FAR 31-205-6(j)(3)(v)) | DCMA or DCAA               |  |
| 6. If the contractor uses a terminal funded plan, verify that the actuarial present value of benefits at retirement are amortized over 15 years. (CAS 416.50(a)(1)(v)(C))  | DCAA with DCMA tech. asst. |  |

| <b>I-1</b>  | <b>Workers' Compensation – General</b> | <b>WP Reference</b> |
|---|--|---------------------|
| <b>Version 3.9, dated April 2016</b>  |  |                     |
| This insurance is to provide the contractor's employees with insurance coverage for job-related injuries and illnesses. Coverage can be purchased or obtained through self-insurance.   |  |                     |
| A purchased plan for workers' compensation insurance is usually retrospectively rated (that is retroactive adjustments are made to the insurance carrier after the policy year ends). These retrospectively rated policies can be "group rated" (on the basis of tables or schedules) or "experience rated" (i.e., on the contractor's experience).                                     |  |                     |
| 1. Determine whether the contractor purchases workers' compensation insurance or is self-insured. If the contractor purchases workers' compensation insurance, determine if the plan is a "group retrospectively rated" plan or an "experience retrospectively rated" plan.   |  |                     |
| 2. Regardless of whether the contractor purchases the insurance or is self-insured, a program to reduce workplace mishaps is essential to the reduction of compensation costs. Therefore, the auditor should ascertain whether the contractor has initiated such a program. If not, the audit report should obtain appropriate recommendations for the establishment of such a program. |  |                     |

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| <p>3. Each state has its own worker's compensation laws. As such, the auditor must determine if contract charges for workers' compensation are in accordance with the laws of the contractor's applicable state of business.</p> |  |
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| <b>J-1</b>                           | <b>Workers' Compensation – Purchased Insurance, Group Rated Plans</b>  | <b>WP Reference</b> |
|--------------------------------------|--|---------------------|
| <b>Version 3.9, dated April 2016</b> |  |                     |
|                                      | <p>1. Costs for group rated plans are based on the number of employees by job classification. The insurance carrier will perform an audit to determine annual costs. The auditor should obtain a copy of this report and analyze its content. The reports will disclose job classifications used, composition of reserves, and calculation of actual costs. Using these reports, the DCAA auditor can compare the proposed costs to actual costs and identify any discrepancies that require additional audit coverage.</p>  |                     |
|                                      | <p>2. Determine if the proper job classifications are being used. Compare the job classifications and related rates used by the insurance company auditor to compute the annual premium, to the job classifications used by the contractor to estimate costs for proposal purposes. Discuss any difference with the contractor. If the contractor cannot adequately explain the differences, the amount in excess of that determined by application of the contractor's bidding system job classifications to the rates outlined in the policy for those classifications should be questioned.</p> |                     |
|                                      | <p>3. Billings are assessed based on levels of payouts. These levels are detailed in the policy and should be evaluated and compared to the insurance cost charged to Government contracts. Any unexplained difference should be questioned.</p>   |                     |
|                                      | <p>4. Determine that credits (e.g., return of part of the reserve) due are properly applied to decrease the insurance expense. The auditor may need to use a confirmation to the insurance carrier to determine if a credit has been paid to the contractor.</p>   |                     |
|                                      | <p>5. Determine whether insurance costs are allocated to cost objectives based on causal or beneficial relationships (CAS 416.40(b)).</p>  |                     |

| <b>K-1</b> | <b>Workers' Compensation – Purchased Insurance, Experience Rated Plans</b> | <b>WP Reference</b> |
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| <p><b>Version 3.9, dated April 2016</b></p>  |  |
| <p>Experience retrospectively rated plans are computed based on the contractor's actual losses. The initial charge is comprised of the insurance company's profit, overhead and "excess coverage" for losses in excess of the retrospective rated policy limits. When claims are paid by the insurance company, the contractor is charged for the claim amount plus a claims handling charge.</p>  |  |
| <p>1. Determine that the contractor's projected average loss computation conforms with the fundamental requirement in CAS 416.40(a). Determine whether the projected average loss varies from the annual payment to the insurance carrier. (Normally any variance is associated with "Cash Management Plans.")</p>   |  |
| <p>2. Under cash management plans, the financing provisions are negotiated. The reserve may be held by the contractor in total, or split between the contractor and the insurance carrier. Since these plans are negotiated, there are no "standard" terms available for audit comparison purposes. Determine if the reserve or deposit held by the insurance carrier is properly discounted. Any excess reserve or deposit charges should be questioned accordingly. In addition, determine if any income or rebate is credited to the insurance expense as required by CAS 416.50(a)(1)(i). If not, question the amount of the dividend or rebate.</p> |  |
| <p>3. In consideration of item 9 of the Prefatory Comments to CAS 416, any funds accrued for retrospective adjustments should be considered self-insurance subject to present value discounting. Therefore, all reserves maintained by contractors under purchased plans should be discounted using the Treasury Rate (CAS 416.50(a)(3)(ii)).</p>  |  |
| <p>4. Determine if competitive quotations are solicited. Are they used to determine the reasonableness of the proposed costs? If obtained but not used, determine reasons.</p>   |  |
| <p>5. To project insurance costs, contractors use development factors applied to paid losses and known claims. These factors are furnished by the insurance carrier to provide for estimated increases in claims for various reasons. Audit of these factors should include the following</p>  |  |
| <p>a. Verify prior year payouts and known claims to the listing provided by the insurance carrier.</p>   |  |
| <p>b. Verify claimed escalation on prior payouts and known claims to medical escalation indices (BLS indices).</p>   |  |
| <p>c. Evaluate claims growth amounts for higher settlements due to changes in economic environment and increasing number of</p>  |  |

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| <p>claims filed each year. Compare the projected amount to experience for the past three years. Coordinate with the CIPR team captain regarding statistics that the auditor may use to evaluate claims growth.</p>   |  |
| <p>d. Unknown claims that are incurred but not reported (IBNR), should be identified as to specific reason or purpose (e.g., asbestos, other occupational illnesses, etc.). Consider the purpose for the IBNR, the contractor's loss experience for the IBNR claims, and other documentation. IBNRs are contingent in nature and subject to the provisions of FAR 31.205-7, "Contingencies." Accordingly, any highly speculative loss projections should be questioned</p> |  |
| <p>6. Determine whether insurance costs are allocated to cost objectives based on causal or beneficial relationships (CAS 416.40(b).) Contractor loss experience by segment is particularly important in evaluating this cost allocation.</p>  |  |

| <b>L-1</b>                           | <b>Workers' Compensation – Self-Insurance Plans</b>  | <b>WP Reference</b> |
|--------------------------------------|--|---------------------|
| <b>Version 3.9, dated April 2016</b> |  |                     |
|                                      | <p>1. Evaluate the contractor's computation of the projected average loss. The projected average loss is computed either (a) on the basis of actual losses, that is current payouts plus known losses as defined by CAS 416.40(a), (b) current payouts, known losses and unknown losses (IBNRs), or (c) known losses and unknown losses (IBNRs) plus a retrospective adjustment computed annually for "missed" accruals for prior periods. [Note: IBNRs are contingent in nature and should be considered in accordance with FAR 31.205-7.]</p>                        |                     |
|                                      | <p>2. Compare the projected average loss to prior year projections and payouts. If the reserve for incurred losses to be paid in future years is increasing, the contractor is estimating more costs than are currently being paid to claimants. Determine the reason and basis for the increasing difference between estimated costs and cash paid to claimants. Question excessive unsupported reserves. Coordination with the CIPR team captain requesting specialist assistance may be required to determine whether the reserve is in excess of requirements.</p> |                     |
|                                      | <p>3. If the contractor is including retrospective adjustments in its calculation of projected average loss, determine whether the adjustments (to adjust estimates to actual) are normal or are for missed accruals. Large adjustments usually represent missed</p>   |                     |

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| <p>accruals. Missed accruals represent an out-of-period adjustment which is contrary to the fundamental requirement of CAS 416.40(a) and should be questioned. Normal revisions to adjust accruals to actuals are allowable.</p>  |  |
| <p>4. Determine if the contractor is present value discounting any reserve held in excess of one year as required by CAS 416.50(a)(3)(ii) and that Government contracts are both receiving and retaining the full value of the discount increments. Ascertain if the discount rate used is the interest rate determined by the Secretary of Treasury in effect at the time the loss is recognized in accordance with CAS 416.50(a)(3)(ii). Any difference resulting from the use of an interest rate other than the one required by CAS 416.50(a)(3)(ii) should be questioned accordingly. Compare available reserve amounts with actual expenditures to assure that the Government is retaining full value for the discounted amounts.</p> |  |
| <p>5. Determine whether insurance costs are allocated to cost objectives based on causal or beneficial relationships (CAS 416.40(b)). Contractor loss experience by segment is particularly important in evaluating this cost allocation.</p>   |  |

| <b>M-1</b>  | <b>General Liability</b> | <b>WP Reference</b> |
|---|--------------------------|---------------------|
| <b>Version 3.9, dated April 2016</b>  |                          |                     |
| <p>This is insurance to cover the contractor for losses due to third party accidents involving the contractor's property.</p>   |                          |                     |
| <p>1. Determine whether the projected average loss is measured in accordance with CAS 416.40 and is based on purchased insurance, self-insurance estimates, or a combination of purchased and self-insurance. Compare projected average loss to prior estimates. Obtain explanation for any large fluctuations.</p>   |                          |                     |
| <p>2. If insurance is purchased, assess the policy. Most policies have a high deductible which varies from \$1 million downward. Verify the premium amount to the insurance costs charged to Government contracts. Question any self-insurance cost for risks of catastrophic losses, since FAR 31.205-19(c)(4) prohibits any such self-insurance charges .</p> |                          |                     |
| <p>3. Determine that year-end adjustments and dividends are properly credited and allocated to divisions and/or pools. The auditor may need to use a confirmation to the insurance carrier to determine if a credit has been paid to the contractor.</p>  |                          |                     |

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| <p>4. Analyze all reserves associated with retrospective rated policies. The reserve should be identified to specific potential losses (pending litigation). Determine that the reserve is appropriately present value discounted using the Treasury Rates.</p>   |  |
| <p>5. Companies are "self-insured" for the deductible portion of the policy. Under CAS 416, an absence of insurance is interpreted as self-insurance. Some companies charge actual loss experience while others have formalized self-insurance programs. The use of actual loss experience is acceptable only for insignificant insurance costs. [FAR 31.205-19(d)(3)(i) and (ii)]</p>  |  |
| <p>6. Determine whether the contractor obtains quotations from insurance brokers to estimate the self-insurance cost. These broker quotations are for insurance policies that are normally not written due to the high monetary risk involved. When encountering the broker quotation bidding technique the following audit steps should be used.</p>   |  |
| <p>a. Evaluate the broker quotation.</p>  |  |
| <p>b. Determine if competitive quotations have been obtained.</p>   |  |
| <p>c. If competitive quotations have been solicited, is there a wide range of price fluctuation? Experience has disclosed a significant fluctuation between quotations when more than one is obtained. A wide range of prices tends to decrease the value of the competitiveness of the quotations. The quotations are usually not reflective of loss experience, and therefore, should not be used without a comparison to loss experience.</p>  |  |
| <p>d. Evaluate loss experience for an extended period (3 to 5 years). Compare loss experience to determine the reasonableness of the quotation.</p>   |  |
| <p>e. When a broker's quotation is used, the auditor must determine if the contractor's actual loss experience has been evaluated regularly and that any self-insurance charges reflect experience in the same manner as would purchased insurance (CAS 416(a)(2)(i)). Contractors using broker quotations sometimes do not adjust the next year's premium for any difference between the quoted amount and losses paid. Contractors normally cite CAS 416.50 (a)(2)(i) as the basis for not adjusting for the previous year's loss experience, and maintain that the proposed insurance cost is computed in the same manner as purchased insurance is computed; therefore, any "loss or profit" (that is, loss experience differing from the premium) belongs to the contractor in the same manner as it would belong to the insurance company had the contractor purchased the insurance coverage. DCAA has taken the position that loss experience</p> |  |

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| <p>must be used in computing the cost for this insurance. Any significant difference between the proposed and the actual loss experience should be reflected in the next year's projected average loss computation.</p> |  |
| <p>[Note: This estimating method is applicable to any insurance coverage having deductibles or coinsurance, and these steps should be applied to all such insurance coverage.]</p>                                      |  |
| <p>7. Determine whether insurance costs are allocated to cost objectives based on causal or beneficial relationships (CAS 416.40(b)).</p>   |  |

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| <p><b>N-1</b></p>  | <p><b>Product Liability and Professional Liability Insurance</b></p> | <p><b>WP Reference</b></p> |
| <p><b>Version 3.9, dated April 2016</b></p>  |  |                            |
| <p><b>Product Liability and Professional Liability Insurance can also be referred to as Architects and Engineers or Errors and Omissions Insurance.</b> These types of coverage are to cover risk of loss to third parties due to damages incurred from the contractor's product or actions. The cost of insurance to protect the contractor against the costs of correcting its own defects in materials or workmanship is unallowable, while insurance costs to cover fortuitous or casualty losses resulting from defects in materials or workmanship are allowable as a normal business expense (FAR 31.205-19(e)(3)).</p> |  |                            |
| <p>1. Normally product or professional liability insurance is purchased insurance due to the substantial risk involved should a loss be incurred. If a self-insured product or professional liability program is established, the CFAO should be notified immediately to determine if the potential risk of loss would have any impact on the Government contracts. Under FAR 28, the CFAO is required to approve most self-insured programs and make a determination that the risk of loss is adequately covered to allow the contractor to complete the contract.</p>  |  |                            |
| <p>2. Determine whether the proposed cost is computed in accordance with CAS 416.40(a) and 416.50(a). Compare the proposed cost to the insurance policy and obtain explanations for any differences.</p>   |  |                            |
| <p>3. Determine whether the costs are reasonable and allocable:</p>  |  |                            |
| <p>a. Evaluate the policy coverage. If a contractor's liability insurance policy provides coverage for its general practice, allocation of premiums to all contracts through overhead or general and administrative expense is usually acceptable. However, if the policy is written to provide unique liability</p>   |  |                            |

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| <p>coverage for a particular business segment or product, costs should be directly allocated to the benefiting cost objective. Where a plain reading of the policy does not clearly establish the general nature of coverage or the auditor has reason to believe that unique liability coverage is involved, an examination of the types of services rendered to both the Government and commercial customers should be performed.</p>  |  |
| <p>b. Determine if the contractor provides the same service to the Government as to commercial customers. If the contractor does not provide the same service to the Government as to the commercial customers, then the auditor should evaluate the claims and loss experience. If a significant number of claims are the result of a particular product, segment, customer, etc., evaluate the nature of the service and projects causing the claims disparity to determine if there is a more appropriate allocation base. Items evaluated should include the number of settled and pending claims, whether they apply to Government or commercial contracts, and the dollar amounts.</p> |  |
| <p>c. If aircraft product liability insurance is allocated on a sales base to Government contracts, evaluate for compliance with CAS 403.40(b)(4) and 403.60(b) if a home office, and CAS 410.50(g)(2) if an operating segment.</p>  |  |
| <p>4. Determine whether insurance costs are allocated to cost objectives based on causal or beneficial relationships (CAS 416.40(b)).</p>  |  |

| <b>O-1</b>                           | <b>Fire Insurance</b>  | <b>WP Reference</b> |
|--------------------------------------|--|---------------------|
| <b>Version 3.9, dated April 2016</b> |  |                     |
| 1.                                   | Determine if the contractor has a self-insurance plan, a purchased plan, or a combination self-insurance and purchased plan. Determine whether the proposed cost is computed in accordance with CAS 416.40(a) and 416.50(a).   |                     |
| 2.                                   | If the insurance is purchased, evaluate the policy to determine any special provisions affecting the cost or cash flow. Compare the amount detailed in the policy to the amount charged to Government contracts, and obtain explanations for any differences. Any unexplained difference should be questioned. |                     |
| 3.                                   | Determine whether there are co-insurance or deductible provisions. Actual losses incurred under the nominal deductible provisions of purchased insurance are allowable under FAR 31.205-19(d)(3)(i). If the contractor charges other actual losses to the Government   |                     |



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| contracts (including those for co-insurance or deductible provisions), make sure this procedure conforms with CAS 416.50(a)(2)(ii) and 416.50(a)(3)(ii). If the brokers quote technique described in the General Liability section of the audit program is employed, evaluate as appropriate.  |  |
| 4. Some policies require that a multi-year premium be paid when the policy starts. Rather than paying this advance payment, some contractors elect to pay the premium in annual installments. For this election privilege, the contractor is assessed an interest charge. Determine that this interest assessment is eliminated from the fire insurance charge included in the insurance cost charged to Government contracts. |  |
| 5. If the contractor has a self-insurance program, determine that the reserve is properly discounted in accordance with CAS 416.50(a)(3)(ii). See working paper L-1, step 4 for audit guidance.  |  |
| 6. Determine if any credits, rebates, or other income have been appropriately allocated to Government contracts. The auditor may need to use a confirmation to the insurance carrier to determine if a credit has been paid to the contractor.   |  |
| 7. Determine whether insurance costs are allocated to cost objectives based on causal or beneficial relationships (CAS 416.40(b)).   |  |

| <b>P-1</b>                           | <b>Business Interruption Insurance</b>   | <b>WP Reference</b> |
|--------------------------------------|--|---------------------|
| <b>Version 3.9, dated April 2016</b> |  |                     |
| 1.                                   | FAR 31.205-19(c)(4) states that any self-insurance charges for risks of catastrophic losses are unallowable. Business interruptions would be included in the catastrophic loss category. Therefore, business interruption insurance, to be allowable, must be purchased insurance. |                     |
| 2.                                   | Evaluate the purchased policy to ascertain that all profit insurance has been eliminated from the insurance costs charged to Government contracts (FAR 31-205.19(e)(2)(ii)).   |                     |
| 3.                                   | Any difference between the premium per the policy, less the provision for profit, and the amount charged to Government contracts must be explained.  |                     |
| 4.                                   | Determine whether insurance costs are allocated to cost objectives based on causal or beneficial relationships (CAS 416.40(b)).  |                     |

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| <b>Q-1</b>                           | <b>Insurance on Lives of Officers and Owners</b>   | <b>WP Reference</b> |
|--------------------------------------|--|---------------------|
| <b>Version 3.9, dated April 2016</b> |  |                     |
|                                      | 1. Costs of insurance on the lives of officers, partners, or proprietors are allowable only to the extent that the insurance represents additional compensation, (see FAR 31.205-19(e)(2)(v)). Evaluate the insurance policies of such insurance to determine who the beneficiaries are on the policy. |                     |
|                                      | 2. If the company or its owners are the beneficiaries, the costs do not represent additional compensation and are unallowable.   |                     |
|                                      | 3. If the executive’s family and estate are the beneficiaries, the costs are allowable if the total compensation paid to the executive is reasonable.  |                     |

| <b>A-1</b>                           | <b>Concluding Steps</b>  | <b>Responsible Agency</b> | <b>WP Reference</b> |
|--------------------------------------|--|---------------------------|---------------------|
| <b>Version 3.9, dated April 2016</b> |  |                           |                     |
|                                      | 1. Summarize and document the results of audit. Discuss the findings with the CIPR team members and develop a unified Government position.   | DCAA                      |                     |
|                                      | <p>2. Discuss the audit results with the supervisor and, if applicable the technical specialist. Coordinate significant or unusual issues with the CFAO, FAO Manager, and if applicable, with the CAC, CHOA, or GAC network (see CAM 8-302.4, 8-302.6). Coordination should be both before and after discussion of audit results with the contractor. The CFAO should be apprised of noncompliance matters at the earliest possible date.</p> <p>Note: If a noncompliance is considered immaterial, but could become material if circumstances change, notify the CFAO through a memorandum. The memorandum will include a Statement of Condition and Recommendation (SOCAR) and provide the CFAO with sufficient information to understand the condition and the severity of the CAS noncompliance. The only exception to issuing a memorandum is if the audit report includes a material</p> | DCMA and DCAA             |                     |

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| <p>noncompliance(s). When a material noncompliance is reported, the immaterial noncompliance will be reported in a separate exhibit to the report titled "Noncompliance that Warrants Attention of the Cognizant Federal Agency Official." Reference to the exhibit for the immaterial noncompliance will be in the Executive Summary, but will not be included in the Basis of Opinion section, as it is not a material noncompliance.</p>                          |               |  |
| <p>3. Prepare draft audit report (and memorandum, if applicable). If the audit scope was limited to a certain area(s) of the contractor’s accounting practices, modify the subject matter stated in the Report On (from w/p A-01) and Opinion (from w/p A) section of the report, as necessary, so that they clearly identify the limited areas audited.</p>   | DCAA          |  |
| <p>4. If a material weakness/significant internal control deficiency is detected during the course of this audit, ensure that the findings have been fully developed and that a material weakness truly exists. If so, open a Business System Deficiency (Activity Code 11090) assignment to report the deficiency and submit it to the contractor for comment.</p>  | DCAA          |  |
| <p>5. Hold an exit conference with the contractor and provide a draft report (and memorandum, if applicable) to the contractor for comments in accordance with CAM 4-304. Provide a copy of the draft joint report to the contractor for comment. Obtain supervisory review, and management review if required, of the working papers and draft audit results section of the audit report (and memorandum, if applicable) before discussion with the contractor.</p> | DCMA and DCAA |  |
| <p>6. Finalize the audit report and memorandum, if applicable) incorporating the contractor’s reaction and auditor's response, if applicable. Provide copy of final audit report to each team member or agency.</p>  | DCMA and DCAA |  |
| <p>7. Complete the administrative working papers.</p>  | DCAA          |  |
| <p>8. The team leader will follow up on CIPR recommendations with the CFAO and provide supplemental assistance.</p>  | Team Leader   |  |
| <p>9. Update the permanent files. Ensure that a copy of DMIS Report No. CAS 3 entitled “CAS Compliance Testing (Activity Code 194XX)” is included in the permanent file after the assignment has been closed in</p>  | DCAA          |  |

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| DMIS.  |      |  |
| 10. Submit the working paper package and draft report (and memorandum, if applicable) to the supervisor/manager for final review and processing. | DCAA |  |