

Master Document – Audit Program

Activity Code 15400		Contract Audit Closing Statements
Version 2.0, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
To provide a standard audit program for closing of cost reimbursement type, labor, T&M and FPI contracts/subcontracts.		
This audit program is based upon the assumption that all costs incurred on the (sub)contract to be closed have been audited and cost issues finalized. Accordingly, closing procedures are largely administrative in nature. In addition, these closing procedures should typically only be performed when a Cumulative Allowable Cost Worksheet (CACWS) has not been prepared for the entire period of performance. Furthermore, if audited rates are not available for all years, refer to guidance in CAM 6-711.1 and 6-1010 and use the audit program for quick closeout procedures, Activity code 15400, Contract Audit Closing Statements, Quick Closeout. Any cost issues raised in the closing process shall be discussed with the audit supervisor for appropriate procedures for resolution.		
References		
1. CAM 10-900 - Audit Reports on Contract Audit Closing Statements Other Contract Closings and Price Redeterminations.		
2. CAM 6-1009 - Processing of Completion Vouchers		
3. CAM 14-405.5 - Contract Audit Objectives and Procedures (Government Property in Possession of Contractors).		
4. CAM 6-711.1 - Expediting Settlement of Indirect Costs on Completed Contracts.		
5. CAM 6-711.3 – Cumulative Allowable Cost Worksheets.		
6. CAM 6-206 - Underruns etc. on Incentive Contracts.		
7. CAM 12-404 Contract Audit Closing Statement on Vouchered Cost and Fee (Terminated Contracts).		
8. CAM 14-903.5 - Contract Audit Closing Statements (National Guard Bureau Services Contract).		
9. CAM 15-105.2 - Contract Audit Closing Statements--NASA Contracts.		
10. FAR 52.216-7 “Allowable Cost and Payment”		

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B-1	Preliminary Steps	WP Reference
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1.	Evaluate the audit request, if applicable, for scope limitations or special requirements.	
2.	Check the permanent file to determine if a CACWS has been prepared on the (sub)contract, and if so, whether it covers the entire period of (sub)contract performance.	
3.	If a CACWS has been prepared and transmitted to the ACO which includes this contract and covers the entire period of (sub)contract performance, forward the closing documents to the ACO by transmittal memorandum (CAM 6-1009). Discontinue any further effort unless specifically requested by the ACO.	
4.	Conduct an entrance conference with responsible contractor personnel. If all the necessary data and information is available in the permanent files or audit files, this step should not be done.	
5.	Obtain the following data from the permanent files:	
	<ul style="list-style-type: none"> • Indirect rate agreements 	
	<ul style="list-style-type: none"> • DCAA incurred cost audit reports 	
	<ul style="list-style-type: none"> • Schedule of cumulative allowable costs 	
	<ul style="list-style-type: none"> • Contract brief or copy of the contract 	
6.	Evaluate the Internal Control Audit Planning Summaries for related contractor systems (or the Internal Control Questionnaire) and make any needed adjustments to this audit program based on those risk summaries.	

C-1	Evaluation of Final Voucher and Closing Documents	WP Reference
Version 2.0, dated April 2004		
1.	Upon receipt of contractor's final voucher and closing documents ascertain that the closing documents are properly prepared:	
a.	SF 1034 is marked as "Final" or "Completion."	
b.	The amount on the SF 1034 is supported by the SF 1035, which contains allowable amounts by FY.	
c.	Final voucher cumulative amount is consistent with the amount on the release document.	

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d. Cumulative claimed cost and fee are within the contract cost limitation.	
2. Promptly submit to the ACO/TCO the original copy of the completion voucher and accompanying documents. This will permit the ACO to expedite settlement procedures.	
3. If this is on a subcontract where we have not performed an incurred cost audit, obtain a cumulative billing summary as the subcontractor's representation of total costs incurred under the subcontract.	
4. Evaluate the contract brief (CAM 3-202) or copy of the contract. Document any special provisions identified (e.g., indirect rate ceilings, LOE hours, labor categories, contract limitations, FCCOM or profit/fee provisions).	
5. Evaluate the (sub)contract file for any special cost considerations included in the (sub)contract.	
6. The auditor must be alert for the following conditions which, if applicable, must be commented on in the contract audit statement:	
a. Accounting procedure deficiencies.	
b. Unclaimed wages, unclaimed deposits, unrepresented checks, and potential credits and refunds.	
c. Any unresolved CAS noncompliance issues or accounting practice changes affecting this (sub)contract.	
d. Any unresolved GAO informal inquiries or any outstanding notices of exception.	
e. Any Government funds advanced and unliquidated balances.	
f. Any unsettled disallowances, outstanding subcontract legal actions, open insurance claims, defective pricing issues, ASBCA cases, or other unresolved items.	
g. Work contemplated by contract not physically complete.	
h. Government furnished material or equipment greater than contemplated by the terms of the contract. Forward an inquiry to the cognizant Government Property Administrator regarding Government property status.	
i. Ceiling Rates.	
j. Actual allowable costs substantially below contract estimated costs on which fixed fee was based.	
7. Reconcile cumulative allowable cost to cost claimed.	
a. Reconcile the claimed allowable direct costs by year to annual audit files or contractor records and verify that the lesser of final	

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indirect rates or contract ceiling rates have been applied to appropriate bases. Use cumulative allowable cost worksheets to the extent prepared.	
b. If costs do not reconcile, prepare a comparison of cost element amounts between the final voucher and the audit report(s) amounts to document differences. Present the comparison to the responsible supervisory auditor for audit action to resolve difference.	
c. Determine that total amount billed does not exceed the lesser of total allowable amount per audit or funding limitations per a review of the contract brief (C-1, step 4).	
8. For Time and Material (T&M) (sub)contracts:	
a. Verify that the sum of total hours by category x contractual hourly billing rates equals total labor amounts claimed. (If hours by category are not readily available, consult supervisory auditor.) Verify that hours incurred by category fall within contractual limits, if any exist. Verify claimed rates to the contractual rates as documented on the contract brief (C-1, step 4).	
b. Reconcile labor hours, materials and other direct costs claimed to allowable costs/hours by year shown in the annual audit file. Use cumulative allowable cost worksheets to the extent prepared. Otherwise obtain costs by year from annual audit files or contractor records. Verify that the lesser of the final material handling or G&A rate or contract ceiling rate has been used to calculate annual allowable costs.	
c. Determine that total amount billed does not exceed the lesser of total allowable amount per audit or funding limitations per a review of the contract brief (C-1, step 4).	
9. For cost sharing contracts, evaluate cost-sharing provisions. In a cost-sharing contract, only the Government percentage of allowable costs may be recovered. Verify that the final voucher shows total allowable cost and the cost-sharing reduction.	
10. Evaluate the disposition of ending inventory for CAS covered contractors.	
a. If "Z" is checked on the CAS D/S item 2.2.1, there is no inventory account and the contract cost ledger should be evaluated to determine that the contract was credited for transfers out and that there were no large purchases of materials at or near completion of production.	
b. If any other block is checked on CAS D/S 2.2.1, verify that ending transfers-out were at appropriate inventory value.	

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11. Procedures for close-out of subcontracts.	
a. Arrange with the contractor to obtain final invoices from its subcontractors or other divisions and arrange for assist audits, as necessary, if they have not been accomplished.	
b. Ascertain audit completion for all subcontracts and interdivisional transactions where assist audits have been requested and assure final audit report receipt. Obtain cumulative allowable cost worksheets, if available, from the assist auditor(s).	
c. Determine that subcontract amounts billed under the prime contract do not exceed amounts approved in the assist audit reports or cumulative allowable cost worksheets.	
12. Evaluate Fee Calculation:	
a. If Cost Plus Fixed Fee, determine that total cost and fee billed do not exceed total allowable per contract.	
b. If Cost Plus Award Fee, determine that total cost and fee billed do not exceed funding limitations and that total fee billed is in accordance with total fee awarded.	
c. If Cost Plus Incentive Fee, determine that total cost and fee billed do not exceed funding limitations and that fee has been calculated in accordance with contractual incentive fee provisions.	
13. If Fixed Price Incentive, look at the incentive fee clause of the contract:	
a. Determine that the final cost claim credits the contract for any ending inventory. This inventory is the property of the contractor, and must be removed from the fee base.	
b. Prepare recommendations on incentive fee.	
14. Contracts with level-of-effort clauses normally provide for fee reduction if labor hours by category do not fall within contractual limits. Labor hours must be verified. Exceptions and recommended fee reductions should be referred to the ACO. Refer to CAM 10-904.	

A-1	Concluding Steps	WP Reference
	Version 2.0, dated April 2004	
	1. Prepare draft audit report.	
	2. If over-recovery of cost exists, either	
	a. request copy of check which refunded overpayment; or	

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<p>b. request that a check and copy of final voucher be furnished directly to the Paying Office.</p>	
<p>3. Update permanent file. If the results of this audit identified any need to change the risk assessments summarized on the ICAPS or ICQ, discuss these matters with the supervisory auditor/FAO manager before making any changes.</p>	
<p>4. On subcontracts, determine whether subcontractor has any objection to the release of the report to the prime or upper tier contractor. Provide appropriate comment in audit report restrictions.</p>	
<p>5. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:</p>	
<p>a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.</p>	
<p>b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.</p>	
<p>c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.</p>	
<p>d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG_ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.</p>	
<p>e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or</p>	

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<p>read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.</p>	
<p>f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it may be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.</p>	
<p>g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.</p>	
<p>h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.</p>	
<p>i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.</p>	
<p>j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.</p>	
<p>k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.</p>	
<p>l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).</p>	
<p>m. <u>Do Not File Sensitive Audits in iRIMS.</u> Sensitive audits include but are not limited to classified work, suspected irregular conduct,</p>	

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<p>hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.</p>	
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