

**Master Document – Audit Program**

<b>Activity Code 15400</b>	<b>Contract Audit Closing Statement, Quick Close Out</b>	
<b>Version 1.3, dated April 2003</b>		
<b>B-1</b>	<b>Planning Considerations</b>	
<b>Purpose and Scope</b>		
To provide a standard audit program for quick closeout 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. Any cost issues raised in the closing process shall be discussed with the audit supervisor for appropriate procedures for resolution.		
<b>References</b>		
1. CAM 10-901 - Final Audit Reports on Cost Reimbursement and Time and Material Type Contracts and Subcontracts.		
2. CAM 14-405.5 - Contract Audit Objectives and Procedures (Government Property in Possession of Contractors).		
3. CAM 6-711.1 - Expediting Settlement of Indirect Costs on Completed Contracts.		
4. CAM 6-206 - Underruns etc. on Incentive Contracts.		
5. CAM 12-404 Contract Audit Closing Statement on Vouchered Cost and Fee (Terminated Contracts).		
6. CAM 14-903.5 - Contract Audit Closing Statements (National Guard Bureau Services Contract).		
7. CAM 15-105.2 - Contract Audit Closing Statements--NASA Contracts.		
8. FAR 52.216-7 “Allowable Cost, Fee and Payment”.		

<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
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1. Evaluate audit request, if applicable, for scope limitations or special requirements.		

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2. Check the permanent file to determine if a CACWS has been prepared on the (sub)contract.	
3. If a CACWS is available, verify final voucher costs to the CACWS.	
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. 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.	

<b>C-1</b>	<b>Final Voucher and Closing Documents</b>	<b>WP Reference</b>
<b>Version 1.3, dated April 2003</b>		
1.	Upon receipt of contractor’s final voucher and closing documents ascertain that the closing documents are properly prepared:	
a.	Final voucher cumulative amount is consistent with the amount on the release document.	
b.	Cumulative claimed cost and fee are within the contract cost limitation.	
c.	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.	
2.	If a Subcontract, obtain a cumulative billing summary as subcontractor's representation of total costs incurred under the subcontract.	
3.	Evaluate the contract brief (CAM 3-202) if not performed during the incurred cost audit.	
4.	Evaluate the (sub)contract file for any special cost consideration included in the (sub)contract.	
5.	Look at the permanent file to determine if a CACWS has been prepared on the (sub)contract. If a CACWS is available, verify the final voucher amount to the CACWS.	
6.	If a CACWS was not prepared, the auditor must be alert for the following conditions which, if applicable, must be commented on in the contract audit statement:	
a.	Accounting procedures deficiencies.	

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b. Unclaimed wages, unclaimed deposits, unrepresented checks, and potential credits and refunds.	
c. Any unresolved CAS noncompliance issues or accounting practice changes affecting this 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 based.	

<b>D-1</b>	<b>Reconciliation of Cumulative Allowable Costs to Costs Claimed</b>	<b>WP Reference</b>
<b>Version 1.3, dated April 2003</b>		
1. Reconcile cumulative allowable cost to cost claimed.		
a. Identify allowable direct costs by year from annual audit files and apply the lesser of final indirect rates or contract ceiling rates to appropriate bases. Use cumulative allowable cost worksheets if available.		
b. If costs do not reconcile, prepare a comparison of cost element amounts between the billing and the audit report amounts to locate 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 or funding limitations.		
2. For Time and Material (T&M) Contracts:		
a. Reconcile the sum of (total hours by category) x (contractual hourly billing rates) to total labor amounts claimed. (If hours by category are not readily available, consult Supervisory Auditor.)		

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Determine whether hours by category fall within contractual limits, if any exist.	
b. Reconcile materials and Other Direct costs claimed to allowable costs by year shown in the annual audit file. Use cumulative allowable cost worksheets if available. Otherwise obtain costs by year from annual audit files. Apply the lesser of final G&A rate or contract ceiling rate to annual allowable costs.	
c. Determine that total amount billed does not exceed the lesser of total allowable amount or funding limitations.	
3. 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.	
4. If cost reimbursable, determine that the total cost billed does not exceed total allowable per contract.	
5. If audited rates are not available for all years, refer to guidance in CAM 6-711.1.	

<b>E-1</b>	<b>Ending Inventory</b>	<b>WP Reference</b>
<b>Version 1.3, dated April 2003</b>		
Evaluate the disposition of ending inventory.		
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.	

<b>F-1</b>	<b>Auditable Subcontracts</b>	<b>WP Reference</b>
<b>Version 1.3, dated April 2003</b>		
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.	

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<p>b. Ascertain audit completion for all subcontracts and interdivisional transactions requiring audit and assure final audit report receipt unless a waiver of audit was authorized for low dollar procurements. Obtain cumulative allowable cost worksheets, if available, from the assist auditor.</p>	
<p>c. Determine that amounts billed under the prime contract do not exceed amounts approved in the assist audit reports or cumulative allowable cost worksheets.</p>	

<b>G-1</b>	<b>Fee and Other Adjustments</b>	<b>WP Reference</b>
<b>Version 1.3, dated April 2003</b>		
1. Evaluate the Fee Calculation:		
<p>a. If Cost plus Fixed Fee, determine that total cost and fee billed do not exceed total allowable per contract.</p>		
<p>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.</p>		
<p>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.</p>		
2. If Fixed Price Incentive, look at the incentive fee clause of the contract:		
<p>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.</p>		
<p>b. Conduct only those reconciliations necessary to arrive at a recommended incentive fee.</p>		
<p>c. Prepare recommendations on incentive fee.</p>		
3. 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.		

<b>A-1</b>	<b>Concluding Steps</b>	<b>WP Reference</b>
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1. Prepare draft report.	
2. If over-recovery of cost exists, either	
a. request copy of check which refunded overpayment; or	
b. request that a check and copy of final voucher be furnished directly to the Paying Office	
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.	
4. On subcontracts, determine whether subcontractor has any objection to the release of the report to the prime or upper tier contractor. Obtain memo of auditor discussions with contractor for CACS file. Provide appropriate comment in audit report restrictions.	
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:	
a. 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.	
b. 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.tif). There is no requirement to make the file a part of the APPS generated executable file and it may be included separately on the CD containing the APPS generated executable file.	
c. Ensure an electronic copy of the final draft report containing the supervisory auditor’s initials and date on the top page, 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.	

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d. Include an electronic version of the acknowledgement letter in the audit working paper package.	
e. 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.	
f. Two complete sets of electronic working papers must be prepared. The "original" set should be stored in the working paper package. The "archive" set is to be stored separately from the working paper package on a single session CD-ROM. 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.	
g. Verify that electronic files stored on removable media are not corrupted and can be unarchived.	
h. Securely enclose the "original" set of electronic files in the working paper package.	