

Master Document – Audit Program

Activity Code 19500	Cost Impact Statement (Price Adjustment)
Version 4.0, dated April 2004	
B-1	Planning Considerations
Purpose and Scope	
<p>To provide general objectives to be considered in auditing cost impact proposals. Additional detailed audit steps should be prepared to satisfy unique contractor circumstances or proposal submissions. This program does not replace auditor judgment. It should be tailored to the audit scope of the particular assignment. The revised audit program must reflect a mutual understanding between the auditor and supervisor as to the scope required to meet audit standards and objectives.</p>	
References	
<ol style="list-style-type: none"> 1. CAM 10-809, Audit Reports - Cost Impact Statements 2. CAM 8-500, Audit of Cost Impact Proposals Submitted Pursuant to the Cost Accounting Standards Clause 3. Audit Guidance Memorandum 02-PAC-004(R), Audit Guidance on Cost Accounting Standards (CAS) Cost Impact – Unilateral Change in Cost Accounting Practice and Noncompliance with CAS and Disclosed Practices 4. CAS Board Regulations (Especially 9903.201-6 and 9903.306) 5. DoD CAS Working Group Guidance Papers (WG 76-4, 76-5, 76-6, 76-8, 76-9) 6. CAS Clauses: FAR 52.230-2, FAR 52.230-3 and FAR 52.230-4 or other applicable regulations 7. FAR 30.602 	

B-1	Preliminary Steps	WP Reference
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<ol style="list-style-type: none"> 1. Determine the reason for the proposed cost impact (see clauses below). Include copies of pertinent audit reports, such as the noncompliance report, in the audit file. Obtain a copy of the CFAO's final noncompliance determination, if applicable. <ol style="list-style-type: none"> a. FAR 52.230-2(a)(4)(i). Required change. Equitable adjustment 		

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under CAS clause.	
b. FAR 52.230-2(a)(4)(ii) and -2(a)(5). Unilateral change. No increased cost to the Government in the aggregate.	
c. FAR 52.230-2(a)(4)(iii) and -3(a)(3)(ii). Desirable change. Change with which the Government agrees. Equitable adjustment under CAS clause.	
d. FAR 52.230-2(a)(5), -3(a)(4), and -4. Noncompliance with CAS or disclosed practice. Downward adjustment for any increased cost in the aggregate.	
2. Diagram the chronological events showing all pertinent dates, such as effective date, applicability date, date of triggering contract, CFAO determination dates, etc.	
3. Determine if separate impacts for each change have been provided. When multiple changes are involved separate impacts should be calculated for each change. If this is not practical and changes are combined, coordinate this with the contractor and CFAO.	
4. Evaluate the adequacy of the contractor's proposal. If the submission is not adequate, advise the CFAO and recommend that a proper proposal be obtained.	
a. A General Dollar Magnitude (GDM) proposal should contain an estimate of the aggregate impact on CAS-covered contracts by contract type and by various departments/agencies.	
b. A detailed cost impact proposal should have data at the contract/subcontract level that should include, where appropriate:	
(1) fixed price,	
(2) target/estimated cost,	
(3) accumulated cost to date,	
(4) estimate to complete,	
(5) target profit or fee,	
(6) sharing ratio,	
(7) ceiling price,	
(8) period of performance,	
(9) profit or fee impact,	
(10) total increased/(decreased) cost to the Government.	
5. In planning and performing the examination, consider the fraud risk indicators in CAM Figure 4-7-3 for applicability to this audit. Document in working paper B any identified fraud risk indicators and	

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<p>your response/actions to those identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p>	
<p>6. Hold an entrance conference to discuss the cost impact proposal and obtain additional information or data. Determine if the contractor is contemplating any modifications to the proposed cost impact. If so, coordinate with the contractor and CFAO to avoid unnecessary audit effort.</p>	
<p>7. Verify the universe of CAS-covered contracts and subcontracts that will be affected by the change or noncompliance.</p>	
<p>a. Evaluate the adequacy of the contractor's procedures for identifying accurately and completely all contracts and subcontracts containing the CAS clause.</p>	
<p>b. Perform limited test checks of contract listings to assure continuing effectiveness of the contractor's system.</p>	
<p>c. For smaller contractors, test the listing of CAS-covered contracts against FAO files of active cost reimbursable contracts and listing of CAS-covered fixed price procurement actions available within DoD.</p>	
<p>d. Alternatively, try to obtain confirmation from the CFAO that the proposal includes all affected prime contracts and subcontracts.</p>	
<p>8. If the contractor is classified as non-major (where ICAPS have not been completed) and if the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. .Specifically, document or reference one or more of the following in working paper B-2:</p>	
<p>a. the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,</p>	
<p>b. the procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or</p>	
<p>c. the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer based data.</p>	
<p>When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4a and 10-809.4.</p>	

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<p>9. Coordinate the audit report due date with the CFAO based on the results of preliminary audit steps. Request technical assistance regarding the evaluation of estimates to complete, if needed.</p>	
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C-1	Change In Accounting Practice	WP Reference
Version 4.0, dated April 2004		
1.	Determine the basis of the cost impact amounts for the change and for the contractor's direct costs in the cost impact proposal.	
2.	For changes to accounting practices, verify the completeness of the cost impact proposal. Ensure that:	
a.	only those contracts and subcontracts awarded prior to the change are included in the cost impact proposal.	
b.	the cost impact extends through the performance period of all applicable CAS-covered contracts.	
c.	for changes required to implement a new standard, verify that only those contracts and subcontracts awarded prior to the standard's effective date are included in the proposal.	
3.	Perform a yearly reconciliation of firm and anticipated business base as identified in an appropriate forecast, to the direct costs in the cost impact proposal. This provides a check on the contractor's calculations and should also reveal any impact resulting from changes other than the identified change in accounting practice (e.g., increased efficiency). Add additional audit steps if necessary.	
a.	For GDM proposals, this would be done at the contract-type level.	
b.	For detailed cost impact proposals, this would be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	
4.	Compare actual direct costs to direct costs in the cost impact proposal to determine any significant differences. Differences may indicate contracts were shifted to different timeframes or other contracts may have been added or deleted since the time the cost impact proposal was prepared. Add additional audit steps, if necessary.	
a.	For GDM proposals, this would be done at the contract-type level.	
b.	For detailed cost impact proposals, this would be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	
5.	Reconcile the cost shift by year to identify the overall impact on non-CAS covered contracts and anticipated business. This should not be	

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<p>done on an individual contract basis, but should be sufficient to identify the impact on commercial and other Government work separately.</p>	
<p>6. Verify the proposed cost impact calculations on a sampling of contracts and subcontracts. The following 5-step process (steps a through e) should be used to calculate audit recommended cost impacts. NOTE: Steps d and e (below) should be omitted for required and desirable accounting practice changes since increased costs may be allowed under those circumstances. Steps d and e must be performed in all other instances since payment of aggregate increased costs by the Government is prohibited.</p>	
<p>a. For each CAS-covered contract selected for evaluation, compute the increase/decrease in cost estimates or cost accumulations due to the accounting practice change as follows:</p>	
<p>(1) Calculate the difference between the estimated cost to complete (ETC) using the old accounting practice and the ETC using the new practice, from the date of the change to the end of the period of performance on the contract for all CAS covered contracts.</p>	
<p>(2) Consider the impact on negotiated profit and fee for all CAS covered contracts. Evaluate contract terms as necessary to ensure that all profit negotiated based on estimated or accumulated costs is identified and adjusted to ensure that it is not enlarged beyond that contemplated by the parties to the contract at negotiations.</p>	
<p>b. Combine the increases/(decreases) in cost accumulations and/or contract prices within each contract group (flexibly-priced and FFP).</p>	
<p>c. Calculate the increased/(decreased) cost paid by the Government for each contract group, using the net impact on cost accumulations or contract prices from step b. above.</p>	
<p>(1) For flexibly priced contracts: Increased costs to the Government occur when more costs are accumulated as the result of an accounting practice change. Conversely, decreased costs to the Government occur when fewer costs are accumulated as a result of an accounting practice change.</p>	
<p>(2) Fixed price contracts: Increased costs to the Government occur when fewer costs are accumulated as a result of an accounting practice change. Decreased costs to the Government occur when more costs are accumulated as a result of an accounting practice change.</p>	
<p>d. Combine increased and decreased costs to the Government</p>	

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

D-1	Noncompliance - Price Adjustment	WP Reference
Version 4.0, dated April 2004		
1.	Determine the basis of the cost impact amounts for the noncompliance and for the contractor’s direct costs in the cost impact proposal.	
2.	For noncompliances, the cost impact should be computed from the date the noncompliance first occurred until the date the noncompliance was corrected.	
3.	Perform a yearly reconciliation of firm and anticipated business base as identified in an appropriate forecast, to the direct costs in the cost impact proposal. This provides a check on the contractor’s calculations and should also reveal any impact resulting from changes other than the identified change in accounting practice (e.g., increased efficiency). Add additional audit steps if necessary.	
a.	For GDM proposals, this would be done at the contract-type level.	
b.	For detailed cost impact proposals, this would be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	
4.	Compare actual direct costs to direct costs in the cost impact proposal to determine any significant differences. Differences may indicate contracts were shifted to different timeframes or other contracts may have been added or deleted since the time the cost impact proposal was prepared. Add additional audit steps, if necessary.	
a.	For GDM proposals, this would be done at the contract-type level.	
b.	For detailed cost impact proposals, this would be done at the individual contract/subcontract level on a sampling of contracts/subcontracts.	
5.	Reconcile the cost shift by year to identify the overall impact on non-CAS covered contracts and anticipated business. This should not be done on an individual contract basis, but should be sufficient to	

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<p>identify the impact on commercial and other Government work separately.</p>	
<p>6. Verify the proposed cost impact calculations on a sampling of contracts and subcontracts. The following 5-step process (steps a through e) should be used to calculate audit recommended cost impacts.</p>	
<p>a. For each CAS-covered contract selected for examination, compute the increase/decrease in cost estimates or cost accumulations due to the noncompliance as follows:</p>	
<p>(1) For noncompliances in cost accumulation: Calculate the difference between costs accumulated using the noncompliant accounting practice and costs that would have been accumulated had a compliant practice been used for flexibly priced CAS covered contracts. This calculation should include only the periods during which the contractor accumulated costs using the noncompliant practice.</p>	
<p>(2) For noncompliances in cost estimating: Calculate the difference between the contract price estimated/negotiated using the noncompliant practice and what the contract price would have been had a compliant practice been used for all CAS covered contracts.</p>	
<p>(3) Consider the impact on negotiated profit and fee for all CAS covered contracts. Evaluate contract terms as necessary to ensure that all profit negotiated based on estimated or accumulated costs is identified and adjusted to ensure that it is not enlarged beyond that contemplated by the parties to the contract at negotiations.</p>	
<p>b. Combine the increases/(decreases) in cost accumulations and/or contract prices within each contract group (flexibly-priced and FFP).</p>	
<p>c. Calculate the increased/(decreased) cost paid by the Government for each contract group, using the net impact on cost accumulations or contract prices from step b. above.</p>	
<p>(1) For flexibly priced contracts: Increased costs to the Government occur when more costs are accumulated as the result of a CAS noncompliance. Conversely, decreased costs to the Government occur when fewer costs are accumulated as a result of a CAS noncompliance.</p>	

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

A-1	Concluding Steps	WP Reference
Version 4.0, dated April 2004		
1.	Summarize results of audit and discuss with the Supervisor or the FAO technical specialist.	
2.	Prepare report in accordance with CAM 10-809	
3.	Hold an exit conference with the contractor in accordance with CAM 4-304.	
4.	Update permanent files.	
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.	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.	
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.	

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<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 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 must 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>	

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<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, 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>	