

DEFENSE CONTRACT AUDIT AGENCY

**GUIDE FOR DETERMINING
ADEQUACY OF CONTRACTOR INCURRED COST PROPOSAL**

Instructions: This form should be completed for each proposal submission and maintained in the permanent file. Adequacy reviews of contractor incurred cost proposals include verification for completeness and accuracy. The reviewer should verify the proposal includes the required schedules listed below. The reviewer should also perform a general review of the submission to verify math calculations in the schedules and perform a cross-check of amounts that are common to two or more of the schedules. If the contractor generates internal reports identifying the required information in lieu of the example schedule, the reviewer should reference the contractor report on this form where the applicable schedule is listed. All information contained in the example schedules or internal reports, if applicable, as required by FAR 52.216-7(d), must be provided or made available to determine proposal adequacy. In addition, the reviewer should consider the guidance in CAM 6-707.1 and 6-711.3b.(1) when determining whether or not the submission is adequate. Auditors are expected to use professional judgment in determining whether any specific missing/inadequate data or combination of missing/inadequate data is sufficient enough to warrant the submission as inadequate.

A. GENERAL INFORMATION

Assignment Number _____
 Contractor/Segment Name _____
 Fiscal Year Ending _____
 ADV/WP Reference _____

			<u>Adequacy Determination</u>
Proposal Received By	_____	Date	_____ Adequate _____
Proposal Evaluated By	_____	Date	_____ Inadequate* _____
Supervisory Approval	_____	Date	_____ Date Returned _____

**If it is determined that the submission is inadequate, the auditor must provide a written description of any inadequacies to the contractor and contracting officer in accordance with FAR 42.705-1(b)(1)(iii). A copy of the notification should be sent to the ACO. If the information needed is not provided in a timely manner, the FAO should request ACO assistance. Maintain any correspondence with the contractor and ACO regarding requests for the incurred cost proposal and requests for additional information with this form.*

B. PROPOSAL ADEQUACY

Sch	Final Indirect Cost Rate Proposal	Received Y/N/NA	Adequate Y/N	Comments
All	Verify that the contractor is the prime on at least one government flexibly-priced contract. If all claimed costs are for subcontracts, contact the cognizant DCAA offices(s) of the upper-tier contractor to determine if assist audit is needed.			
	Determine if all claimed prime contract costs are for Non-DoD agency contracts. If the contractor does not have a DoD contract, contact Non-DoD agency to determine if the incurred cost audit is needed.			
	Mathematical Verification			

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Sch	Final Indirect Cost Rate Proposal	Received Y/N/NA	Adequate Y/N	Comments
	<ul style="list-style-type: none"> Verify mathematical calculations in the schedules. Check rate calculations on all Schedules (MAAR 19). 			
A	Summary of All Claimed Indirect Expense Rates, Including Pool, Base, and Calculated Indirect Rate.			
	<ul style="list-style-type: none"> Ensure all claimed pools, bases, and rates are shown, including COM (if applicable), and intermediate rates. (Verify all final indirect rates on Schedules B, C, F, and H, and intermediate indirect pool rates on Schedule D, are included on Schedule A.) 			
	<ul style="list-style-type: none"> Verify total pool amounts from Schedule A to total claimed expenses on Schedules B, C, and D. 			
	<ul style="list-style-type: none"> Verify base amounts from Schedule A for final pools to base amounts on Schedule E. 			
B	General & Administrative (G&A) Expenses (Final Indirect Cost Pool)			
	<ul style="list-style-type: none"> Ensure identification of unallowable costs by using an adjustment column or specific account for unallowable costs. 			
	<ul style="list-style-type: none"> Verify the contractor included explanatory notes for any adjustments from expenses booked per G/L to claimed costs. 			
	<ul style="list-style-type: none"> Trace intermediate allocations to source schedules (e.g., Schedule B intermediate allocation amounts to Schedule D allocations). 			
	<ul style="list-style-type: none"> Determine if claimed IR&D/B&P is fully burdened. (The proper calculation of IR&D/B&P is an audit step. For the adequacy determination, verify that these costs have applicable fringe and overheads applied.) 			
C	Overhead Expenses (Final Indirect Cost Pool)			
	<ul style="list-style-type: none"> Ensure a cost schedule is provided for each pool. 			
	<ul style="list-style-type: none"> Ensure total OH pool costs for each pool reconcile to schedule H 			
	<ul style="list-style-type: none"> Ensure identification of unallowable costs by 			

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	using adjustment columns or specific accounts for unallowable costs.			
	<ul style="list-style-type: none"> Verify the contractor included explanatory notes for any adjustments from expenses booked per G/L to claimed costs. 			
	<ul style="list-style-type: none"> Trace intermediate allocations to source schedules (e.g., Schedule C intermediate allocation amounts to Schedule D allocations). 			
D	Occupancy Expenses (Intermediate Indirect Cost Pool(s))			
	<ul style="list-style-type: none"> Ensure a cost schedule is provided for each intermediary cost pool. 			
	<ul style="list-style-type: none"> Ensure identification of unallowable costs by using adjustment columns or specific accounts for unallowable costs. 			
	<ul style="list-style-type: none"> Verify the contractor included explanatory notes for any adjustments from expenses booked per G/L to claimed costs. 			
	<ul style="list-style-type: none"> Trace intermediate allocations to source schedules (e.g., Schedule D intermediate allocations to Schedule B allocation amounts). 			
	<ul style="list-style-type: none"> Ensure the schedule identifies (1) allocation base by recipient, (2) the percentage of the total base for each recipient, and (3) the dollars allocated to each recipient. 			
	<ul style="list-style-type: none"> Ensure the intermediate pools and bases agree with the contractor's Disclosure Statement (if applicable) or historical accounting practices based on general knowledge of the contractor. 			
E	Claimed Allocation Bases by Element of Cost, Used to Distribute Indirect Costs			
	<ul style="list-style-type: none"> Ensure an explanation of each base is included. 			
	<ul style="list-style-type: none"> Ensure base amounts show individual cost elements that reconcile with costs on referenced schedules and include explanatory notes (e.g., direct cost elements in bases tie to Schedule H totals). Ensure base amounts include all unallowable amounts. 			
	<ul style="list-style-type: none"> Ensure the contractor is consistent in using allocation base methods and the contractor 			

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	included explanations if there are any changes from prior years.			
F	Facilities Capital Cost of Money Factors Computation			
	<ul style="list-style-type: none"> Ensure correct interest rates are used (CAM 8-414.2). 			
	<ul style="list-style-type: none"> Ensure allocation bases used match corresponding allocation bases claimed in Schedule A. 			
	<ul style="list-style-type: none"> Ensure the contractor calculated a separate COM rate (if applicable) for each final indirect pool. 			
G	Reconciliation of Books of Account and Claimed Direct Costs by Major Costs Element			
	<ul style="list-style-type: none"> Verify claimed direct costs to Schedule H. 			
	<ul style="list-style-type: none"> Verify the contractor included explanatory notes for any adjustments from expenses booked per G/L to claimed costs. 			
H	Schedule of Direct Costs by Contract and Subcontract and Indirect Expense Applied at Claimed Rates as well as a Subsidiary Schedule of Government Participation Percentages in Each of the Allocation Base Amounts.			
	<ul style="list-style-type: none"> Ensure flexibly priced contracts and subcontracts, including commercial T&M, are listed by contract and subtotaled by contract type. FFP and other commercial contracts may be shown on one summary line each. 			
	<ul style="list-style-type: none"> Verify cost detail is in the same level used for billing costs (e.g., by delivery order). 			
	<ul style="list-style-type: none"> Verify indirect expenses were calculated using claimed rates from Schedule A. 			
	<ul style="list-style-type: none"> Verify Government participation is calculated for each indirect expense pool. 			
	<ul style="list-style-type: none"> Reconcile base amounts used for calculating government participation to Schedules E and H. 			
I	Schedule of Cumulative Direct and Indirect Costs Claimed and Billed by Contract and			

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	Subcontract			
	<ul style="list-style-type: none"> Verify cost detail is in the same level used for billing costs (e.g., by delivery order). 			
	<ul style="list-style-type: none"> Reconcile FY claimed dollars to Schedule H for cost type contracts. 			
	<ul style="list-style-type: none"> Reconcile FY claimed dollars to Schedule K (not Sch. H) for T&M contracts. 			
	<ul style="list-style-type: none"> Compare prior years settled total costs to prior years audit reports. 			
	<ul style="list-style-type: none"> Verify contracts identified as physically complete are reported on Schedule O. 			
	<ul style="list-style-type: none"> Verify that cumulative amounts are not over contract ceiling amounts; amounts over contract ceiling must be deducted and identified in the contract limitation column. 			
	<ul style="list-style-type: none"> Ensure contracts subject to penalty provisions are identified. 			
J	Subcontract Information			
	<ul style="list-style-type: none"> Ensure the schedule includes all types of subcontracts (e.g., cost-type, T&M/LH, IDIQ with a variable element, and FFP) and intra-company costs claimed by the contractor on flexibly priced prime contracts and/or upper-tier subcontracts. 			
	<ul style="list-style-type: none"> Ensure the contractor has included all of the detail for the subcontracts (subcontract number, prime contract number, subcontractor's name and address, point of contact, subcontract value, period of performance, costs incurred in the FY, and award type). 			
K	Summary of Each Time-and-Materials and / Labor Hour Contracts Information, Including Labor Categories, Labor Rates, Hours, and Amounts; Direct Materials; Other Direct Costs; and, Indirect Expense Applied at Claimed Rates			
	<ul style="list-style-type: none"> Verify cost detail is in the same level used for billing costs (e.g., by delivery order). 			
	<ul style="list-style-type: none"> Ensure all contracts/delivery orders identified as T&M/LH on Schedule H have been reported on Schedule K. 			

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	<ul style="list-style-type: none"> Ensure information is presented by cost element, with labor presented by labor category, showing contract labor rates, not actual labor rates. 			
	<ul style="list-style-type: none"> Tie claimed G&A rate to Schedule A. 			
	<ul style="list-style-type: none"> Ensure ODC claimed in schedule K for each contract / D.O. ties to ODC claimed in schedule H. 			
L	Reconciliation of Total Payroll per IRS Form 941 to Total Labor Costs Distribution			
	<ul style="list-style-type: none"> Verify direct labor totals to totals on Schedules H. 			
	<ul style="list-style-type: none"> Verify G&A labor totals to totals on Schedule B. 			
	<ul style="list-style-type: none"> Verify other indirect pool labor totals to applicable pool schedules. 			
M	List of Decisions, Agreements, Approvals, and Description of Accounting/Organizational Changes.			
	<ul style="list-style-type: none"> Ensure completion of this schedule. Negative responses are required. 			
N	Certificate of Final Indirect Costs			
	<ul style="list-style-type: none"> Verify the certificate is signed by an individual of the contractor's organization at a level no lower than a vice president or chief financial officer of the business segment of the contractor that submits the proposal. (FAR 52.242-4) 			
O	Contract Closing Information for Contracts Physically Completed in this Fiscal Year			
	<ul style="list-style-type: none"> Verify contracts reported here are identified as physically complete on Schedule I and identify those already closed or ready to close. 			
	<ul style="list-style-type: none"> Verify the schedule contains LOE information (LOE hours and actual hrs) and ensure the accuracy of the POP and contract ceiling amount. 			

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C. AUDIT LEADS

List any audit leads or other significant risk identified during the proposal adequacy evaluation (e.g. reimbursable contracts not included in schedule H, any known business system deficiencies that have a significant impact on the final indirect rate proposal for this FY, significant risk identified by the contracting officer, etc.).

Audit Lead	Reference

D. CORRESPONDENCE

The contractor should be notified in writing of the need for additional information with a copy to the ACO. If the needed information is not provided in a timely manner, the FAO should request ACO assistance.

Date of Request	Information Requested	Date Information Received

Note: Attach any correspondence with the contractor regarding requests for the incurred cost proposal, requests for additional information if the proposal is not complete, and/or returning an inadequate proposal.

E. Additional Steps

The following steps are not required to determine adequacy, however, to facilitate the audit, the auditor should consider addressing each item when reviewing the contractor’s proposal.

Date		Comments
	<ul style="list-style-type: none"> Request assist audits for significant subcontract costs (if assist has not been requested in prior year(s)) 	
	<ul style="list-style-type: none"> Review the executive compensation schedule for materiality and request assistance from the regional compensation team as needed. 	
	<ul style="list-style-type: none"> Compute ADV and voluntary exclusions for DMIS input (i.e. Total costs for flexibly priced contracts, including billable costs for T&M on Sch. K) 	

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