

DEFENSE CONTRACT AUDIT AGENCY
FAR COST PRINCIPLE ASSESSMENT

Directions: This FAR Part 31 cost principle assessment should be completed based on your knowledge of the contractor's practices and procedures (i) as documented in previous working paper files, (ii) as a result of inquiry of appropriate contractor management, supervisory, and staff personnel; or (iii) as a result of observing contractor operations.

The questions are designed so that a YES answer will generally require follow up. The questions relate to sensitive cost issues and do not replace the requirement that the auditor have detailed knowledge of the cost principles and perform any audit procedures needed to determine compliance with all significant costs being audited at the contractor.

Those CAS standards that relate to the FAR cost principles are noted in parenthesis (). If the contractor is CAS covered, the responses to these risk assessment questions should consider the results of your CAS compliance testing.

Ask the contractor to explain their policies and procedures for identifying and segregating unallowable costs and directly associated costs (31.201-6 Accounting for Unallowable Costs). Document this discussion.

Working Paper Reference _____.

	<u>YES/NO</u>	<u>FOLLOW-UP ASSN W/P REF</u>
31.201-3 REASONABLENESS		
-Have any costs been accrued which have not been paid?		
-Are contracts performed at customer owned off-site locations. If so, determine whether separate off-site indirect expense pools applicable to the off-site locations are maintained?		
31.201-4 ALLOCABILITY		
-Does the company charge service center costs, such as computer and word processing, direct to cost objectives with the variance going to overhead? If the variance is significant, determine whether a change in allocation rates		

is required. If the costs are charged indirect, determine whether the allocations are equitable.		
-Does the company fail to allocate indirect expenses to subcontract personnel engaged to work in-house?		
31.201-5 CREDITS		
-Does the company show miscellaneous income other than as a reduction to expenses, (e.g., rental income, xerox income, and vending machine income)?		
31.203 INDIRECT COSTS		
-Did the company exclude unallowable costs from the allocation bases?		
31.205-1 PUBLIC RELATIONS AND ADVERTISING COSTS		
-Did the company advertise in newspapers, magazines, on radio, etc. for other than help wanted?		
-Is the company involved in trade shows, exhibit booths, etc. relative to the products and/or services the company offers?		
31.205-2 RESERVED		
31.205-3 BAD DEBTS		
-Is any person involved with the collection of bad debts so that the majority of their time relates to this function? If so, who?		
31.205-4 BONDING COSTS		
-Is the company required to be bonded?		
31.205-5 RESERVED		
31.205-6 COMPENSATION FOR PERSONAL SERVICES		
-Were any new DoD contracts awarded after 4/15/95 with 1995 funding? If so, were there any employees that had total compensation (defined by FAR 31.205-6(a)) greater than \$250,000?		
-Were any new DoD contracts awarded after 7/1/96 with 1996 funding? If so, were there any employees that had total compensation (defined by FAR 31.205-6(a)) greater than \$200, 000?		

<p>-Were any new DoD contracts awarded after 12/12/96 with 1997 funding? If so, were there any employees that had compensation (taxable wages plus elective deferrals) greater than \$250,000?</p>		
<p>-For new non-DoD contracts awarded between 1/2/97 and 9/30/97, did any of the top five most highly compensated senior management positions at each company segment, including corporate and intermediate home offices, receive compensation (taxable wages plus elective deferrals) greater than \$250,000 in fiscal year 1997?</p>		
<p>-For costs incurred after 1/1/98, did either; the CEO, any of the four most highly compensated management employees other than the CEO, or any of the five most highly compensated employees at each segment that report directly to the corporate headquarters, receive compensation (wages, salary, bonuses, deferred compensation and contributions to defined benefit pension plans) greater than \$340,650?</p>		
<p>-For costs incurred after 1/1/99, did either the CEO, any of the four most highly compensated management employees other than the CEO, or any of the five most highly compensated employees at each segment (whether or not they report directly to the corporate headquarters), receive compensation (wages, salary, bonuses, deferred compensation and contributions to defined benefit pension plans) greater than \$342,986?</p>		
<p>-For costs incurred after 1/1/00, did either the CEO, any of the four most highly compensated management employees other than the CEO, or any of the five most highly compensated employees at each segment (whether or not they report directly to the corporate headquarters), receive compensation (wages, salary, bonuses, deferred compensation and contributions to defined benefit pension plans) greater than \$353,010?</p>		
<p>-For costs incurred after 1/1/01, did either the CEO, any of the four most highly compensated management employees other than the CEO, or any of the five most highly compensated employees at each segment (whether or not they report directly to the corporate headquarters), receive compensation (wages, salary, bonuses, deferred compensation and contributions to defined benefit pension plans) greater than \$374,228?</p>		
<p>-For costs incurred after 1/1/02, did either the CEO, any of the four most highly compensated management employees other than the CEO, or any of the five most highly</p>		

compensated employees at each segment (whether or not they report directly to the corporate headquarters), receive compensation (wages, salary, bonuses, deferred compensation and contributions to defined benefit pension plans) greater than \$387,783?		
-Was any compensation for employees of the company not paid in full?		
-Were any payments made for back pay that did not represent additional compensation for work performed?		
-Are bonuses paid other than pursuant to a formal agreement between the company and the employees?		
-Is any compensation calculated, or valued, based on changes in the price of corporate securities, including stock bonus, stock options, stock appreciation rights, phantom stock, or junior stock conversions?		
-Does the company have a leveraged Employee Stock Ownership Plan (ESOP)?-Did the company terminate any pension, profit sharing, or bonus plans?		
-Did the company fail to fund profit sharing, bonus, or retirement plans?		
-If funded, were these plans funded less often than on a quarterly basis?		
-Does the leave policy allow employees to carry over hours to a future year(s), e.g., banked vacation?		
-Did the company make severance payments?		
31.205-7 CONTINGENCIES		
-Does the company include costs of contingencies in historical costing?		
31.205-8 CONTRIBUTIONS OR DONATIONS		
-Has the company claimed contributions or donations?		
31.205-9 RESERVED		
31.205-10 COST OF MONEY (CAS 414/417) (also see 31.205-52)		
-Is the company proposing Facilities Capital Cost of Money?		
31.205-11 DEPRECIATION (CAS 404/409) (also see 31.205-16 and 31.205-52)		
-Does the company use different depreciation methods for income tax and/or financial accounting purposes?		

-Does the company use different depreciation methods for government and non government work?		
-Are automobiles the company maintains more than the midsize variety? (31.201-3 REASONABLENESS)		
-Does the company allow personal use of company vehicles (31.205-6(m)(2)) or other company assets? (31.201-4 ALLOCABILITY)		
31.205-12 ECONOMIC PLANNING COSTS (also see 31.205-27)		
-Did the company incur any economic planning costs?		
31.205-13 EMPLOYEE MORALE, HEALTH, WELFARE, FOOD SERVICE, AND DORMITORY COSTS AND CREDITS		
-Do the company's policies and procedures fail to clearly distinguish employee morale and welfare costs from gifts, recreation and entertainment costs?		
-Does the company give awards and gifts for other than compensation or recognition of employee achievements pursuant to an established plan or policy?		
-Did the company claim any recreation costs?		
-Is a cafeteria maintained for employees? If yes, determine whether it operates at a profit or a loss.		
31.205-14 ENTERTAINMENT COSTS		
-Do vouchers for luncheons and trips fail to list the purpose for which the expense was incurred?		
-Does the company provide memberships in social, dining or country clubs to its employees for personal or business related purposes?		
-Does the company have parties, recreational trips, shows, picnics, or other such recreational or entertainment events?		
31.205-15 FINES, PENALTIES AND MISCHARGING COSTS		
-Was the company fined or penalized during the year (e.g., were any tax returns filed late)?		
31.205-16 GAINS AND LOSSES ON DISPOSITION OR IMPAIRMENT OF DEPRECIABLE PROPERTY OR OTHER CAPITAL ASSETS (Also see 31.205-11)		
-Were any assets disposed of during the year?		

-Were any assets written down as a result of impairments caused by events or changes in circumstances (e.g., environmental damage, idle facilities due to a declining business, etc.)?		
31.206-17 IDLE FACILITIES IDLE CAPACITY COSTS		
-Have there been any reductions in force or sales which resulted in unoccupied space?		
-Does the company have any idle facilities or capacity?		
31.205-18 IR&D AND B&P COSTS (CAS 420)		
-Did the company incur any IR&D and B&P costs? (When auditing these costs determine if the company is subject to the entire provisions of CAS 420 or if they are only subject to the provisions of CAS 420 except 420.50(e)(2) and (f)(2).)		
31.205-19 INSURANCE AND INDEMNIFICATION (CAS 416)		
-Are there any instances where insurance coverage is in excess of the acquisition cost of insured assets?		
-If the company has business interruption or similar insurance, does it include coverage of profit?		
-Does the company have professional liability insurance?		
-Did the company terminate any insurance plans?-		
Is the company self-insured?		
-Does key man life insurance exist?		
-Does the company have a split-dollar life insurance policy?		
31.205-20 INTEREST AND OTHER FINANCIAL COSTS		
-Has the company claimed interest expense or other financial costs?		
31.205-22 LOBBYING AND POLITICAL ACTIVITY COSTS		
-Does the company have any lobbying effort?		
-Does the company maintain an office in the Washington, DC area that engages in lobbying activities?		
31.205-23 LOSSES ON OTHER CONTRACTS		
-Has the company incurred any significant losses on recent		

contracts regardless of the customer?		
31.205-24 MAINTENANCE AND REPAIR COSTS		
- Has the company incurred any significant maintenance and repair costs? If so, are any of the costs extraordinary and subject to capitalization requirements of CAS 404 and GAAP?		
31.205-25 MANUFACTURING AND PRODUCTION ENGINEERING COSTS		
- Has the company incurred any significant manufacturing and production engineering costs? If so, are any of the costs covered by 31.205-18 (IR&D), or contractually required?		
31.205-26 MATERIAL COSTS		
-Does the company issue material from stores?		
-If the company has flexibly priced government contracts, does it fail to physically segregate the material inventories for each contract?		
31.205-27 ORGANIZATION COSTS		
-Has the company reorganized, established a new division, or merged with another company?		
-Has the company planned such activities?		
31.205-28 OTHER BUSINESS EXPENSES		
-Does the company issue or transfer securities, hold stockholders meetings, and so forth?		
31.205-29 PLANT PROTECTION COSTS (generally allowable)		
31.205-30 PATENT COSTS		
-Are patent costs charged direct against contracts? If yes, determine whether the patent is required by the contract.		
31.205-31 PLANT RECONVERSION COSTS		
-Has the company incurred re-conversion costs?		
31.205-32 PRECONTRACT COSTS		
-Does the company ever start working on a contract prior to its effective date? If yes, determine that approval was obtained from the contracting officer.		
31.205-33 PROFESSIONAL AND CONSULTANT SERVICE COSTS		

-Does the company fail to maintain supporting evidence of the nature and scope for professional and consulting services rendered?		
-Did the company incur retainer fees?		
31.205-34 RECRUITMENT COSTS		
-Did the company have any help-wanted advertising costs?		
31.205-35 RELOCATION COSTS		
-Did any existing or new employees leave the company within 12 months of relocation?		
-Does the company reimburse employees closing costs or continuing costs of ownership over 14% of the sale price of the old house?		
-Does the company reimburse employees costs incidental to acquiring a home in a new location over 5% of the purchased price of the new house?		
-Does the relocation policy allow for payment of income taxes?		
-Does the company allow more than 30 days of TDY for relocation?		
-Does the company's travel and relocation policy allow newly transferred employees to leave the company before 12 months and not have to reimburse the company for the relocation expenses?		
31.205-36 RENTAL COSTS		
-Did the company enter into any new leases or renegotiate any existing leases during the year?		
-Did the company fail to use FASB No. 13 to determine if the lease was a capital lease?		
-Are there any rental payments for property leased from an owner, stockholder or an affiliate of the contractor?		
31.205-37 ROYALTIES AND OTHER COSTS FOR USE OF PATENTS		
-Did the company incur any royalties or other costs relating to patents?		
31.205-38 SELLING COSTS		
-If the company has selling costs, were salesmen's or agent's compensation, fees, commissions, retainer or brokerage fees paid to other than bona fide employees or established commercial or selling agencies maintained by the company for the purpose of securing business?		

Did the contractor segment incur more than \$2,500,000 in foreign selling costs? (This threshold and the ceiling limitation were removed effective 16 May 1997.)		
31.205-39 SERVICE AND WARRANTY COSTS		
-If the company incurred service and warranty costs, were any such services or warranties not required by a contract?		
31.205-40 SPECIAL TOOLING AND SPECIAL TEST EQUIPMENT		
-Does the company lack policies and procedures to differentiate between the costs of general purpose test equipment and special tooling and special test equipment?		
31.205-41 TAXES		
-Have more taxes (state income taxes mainly) been accrued than paid?		
31.205-42 TERMINATION COSTS		
-If any contracts were terminated during the year, were any indirect costs charged direct as part of the termination?		
31.205-43 TRADE, BUSINESS, TECH. PROF. COSTS		
-Does the company belong to any professional association?		
-Are suggested voluntary contributions included in the billings for membership in professional organizations?		
-Does the company fail to maintain a listing of technical information discussed at meetings?		
-Did the company pay any costs for guests?		
-Are any management meetings held at sites other than the main offices?		
31.205-44 TRAINING EDUCATIONAL COSTS		
-Were any grants, scholarships, fellowships, etc. provided to anyone?		
-Did the company provide training and education to people other than employees?		
31.205-46 TRAVEL COSTS		
-Does company policy fail to require travel via "promotional" fares (reduced rates) wherever possible?		
-Do total per diem rates paid exceed JTR/FAR limitations?		

-Were any rebates, credits, discounts given to the company by airlines, car rental firms, motels, etc. based on such things as volume?		
31.205-47 COST OF LEGAL AND OTHER PROCEEDINGS		
-Has the company incurred costs in connection with any litigation brought by the government?		
-Has the company incurred costs in connection with any proceeding brought by a third party on behalf of the government, i.e., qui tam suits?		
-Has the company incurred costs to defend against stockholder suits?		
-Did the company require legal services for organizing, reorganizing, antitrust suits, claims against the Government or bad debts?		
-Did the company incur bid protest costs or costs of defending against protests?		
31.205-48 DEFERRED RESEARCH AND DEVELOPMENT COSTS		
Does the company have any R&D costs incurred prior to the start of a contract or grant?		
31.205-49 GOODWILL		
-Does the company have any costs for amortization, expensing, write-off or write-down of goodwill?		
-Has the company included the cost of money resulting from including goodwill in the facilities capital employed base?		
31.205-50 Reserved		
31.205-51 COSTS OF ALCOHOLIC BEVERAGES		
-Does the company fail to identify and exclude the costs of alcoholic beverages from its claimed costs?		
31.205-52, ASSET VALUATIONS RESULTING FROM BUSINESS COMBINATIONS		
-Did the company have asset write-ups or write-downs following a business combination?		