

## 42.705-2 Auditor determination procedure.

### (a) Applicability and responsibility.

- (1) The cognizant Government auditor *shall* establish *final indirect cost rates* for *business units* not covered in [42.705-1\(a\)](#).
- (2) In addition, auditor determination *may* be used for *business units* that are covered in [42.705-1\(a\)](#) when the *contracting officer* (or *cognizant Federal agency* official) and auditor agree that the *indirect costs* can be settled with little difficulty and any of the following circumstances apply:
  - (i) The *business unit* has primarily fixed-price contracts, with only minor involvement in cost-reimbursement contracts.
  - (ii) The administrative cost of *contracting officer* determination would exceed the expected benefits.
  - (iii) The *business unit* does not have a history of disputes and there are few cost problems.
  - (iv) The *contracting officer* (or *cognizant Federal agency* official) and auditor agree that special circumstances require auditor determination.

### (b) Procedures.

- (1) The contractor *shall* submit to the cognizant *contracting officer* (or *cognizant Federal agency* official) and auditor a *final indirect cost rate* proposal in accordance with [42.705-1\(b\)\(1\)](#).
- (2) Once a proposal has been determined to be adequate for audit in support of negotiating *final indirect cost rates*, the auditor *shall*-
  - (i) Audit the proposal and prepare an advisory audit report, including a listing of any relevant advance agreements or restrictive terms of specific contracts;
  - (ii) Seek agreement on *indirect costs* with the contractor;
  - (iii) Prepare an *indirect cost rate* agreement conforming to the requirements of the contracts. The agreement *shall* be signed by the contractor and the auditor;
  - (iv) If agreement with the contractor is not reached, forward the audit report to the *contracting officer* (or *cognizant Federal agency* official) identified in the Directory of Contract Administration Services *Components* (see [42.203](#)), who will then resolve the disagreement; and
  - (v) Distribute resulting documents in accordance with [42.706](#).

**Parent topic:** [42.705 Final indirect cost rates](#).