

Master Document – Audit Program

Activity Code 19414		Compliance Audit CAS 414
Version 5.0, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
<ol style="list-style-type: none"> 1. The purpose of CAS compliance auditing is to determine if the contractor's policies, procedures, and practices used to estimate, accumulate, and report costs on Government contracts and subcontracts comply with the requirements of CAS. CAS 414 establishes the criteria for measuring and allocating an appropriate share of the cost of money, which can be identified with the facilities employed in a business. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 414 criteria. FAR 31.205-10 makes CAS 414 applicable to all contracts, even contracts which are not CAS-covered or subject only to modified CAS coverage. Auditors should ensure that proposed or claimed cost of money, when significant, are in compliance with the provisions of CAS 414. 2. The scope of this audit should generally be limited to current contractor fiscal year (CCFY). Testing of prior years' transactions, especially unaudited fiscal years, is acceptable to assure that no system changes were made and no noncompliances exist. For efficiency, CAS compliance testing, if possible, should be performed concurrently with tests for compliance with FAR and contract terms. 3. This program is intended to provide for the proper planning, performance, and reporting on the contractor's compliance with CAS 414. The audit steps in the program should reflect a documented understanding between the auditor and the CAS technical specialist and/or the supervisor as to the scope required to comply in an efficient and effective manner with generally accepted auditing standards and DCAA objectives. The program steps are intended as general guidance and should be tailored as determined by audit risk. 		
Other Planning Considerations		
<ol style="list-style-type: none"> 1. Before beginning any CAS compliance audit, the auditor should first determine the contractor is subject to the CAS coverage. If the standard is not applicable to the contractor or noncompliance with the standard overall has no significant impact on Government contract costs, the testing for contractor compliance with the standard is unnecessary. Next, the auditor should determine if the contractor's proposal or claim for reimbursement excludes the cost of money. If the contractor excludes the cost of money the contractor is still required to compute the cost of money factors and a failure to do so is considered a violation of a requirement of the standard. Verify this condition with the contractor and proceed to step D-1 of 		

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<p>the audit program. If compensation for the use of the facilities is based on use rates or allowances in accordance with other Federal procurement regulations, then CAS 414 and FAR 31.205-10, Cost of Money cost principle, do not apply (CAS 414.62(b)). The decision to not test for CAS compliance should be documented (see CAM 8-305 and DoD CAS Working Group Guidance Paper 76-7).</p>
<p>2. Materiality (see 48 CFR 9903.305) and audit risk assessment (including Internal Control Audit Planning Summary (ICAPS) for major contractors, ICQ for nonmajors, and historical CAS problems) are integral parts of the planning process and should be considered in developing the extent and frequency of CAS compliance tests.</p>
<p>3. Once it is determined that the standard is applicable and material to the Government, the auditor should assess which provisions of the standard are significant to the contractor; the extent reliance may be placed on the contractor's system of internal controls to ensure compliance; and the results of relevant other audits (e.g., results of prior compliance audits, Disclosure Statement revisions, etc.). The decision to not test whether the contractor is complying with specific provisions of the standard should be documented.</p>
<p>4. There is a direct correlation between the level of transaction testing required and the results of the most current CAS 404 and CAS 409 compliance audits. It is recommended that the CAS compliance audits for CAS 404 and 409 be completed prior to beginning a CAS 414 compliance audit.</p>

B-1	Preliminary Steps	WP Reference
Version 5.0, dated April 2004		
1. Research and Planning		
	a. Read and become familiar with the criteria in CAS 414, CAM 8-414, and any recent Headquarters guidance not incorporated in CAM.	
	b. Determine whether total costs subject to CAS 414 are material. Consider contractor's sales mix (i.e., CAS-covered Government contracts vs. non-CAS-covered and commercial) when determining materiality of costs subject to this standard. If not, discuss with supervisory auditor before continuing audit.	
	c. Evaluate Part IV of the contractor's Disclosure Statement to become familiar with the disclosed accounting practices. Determine if the contractor's accounting system, especially capitalization practices (CAS 404) or the depreciation and/or amortization procedures (CAS 409), has remained unchanged	

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since the last CAS 414 compliance audit. If changes have occurred, adjust audit scope accordingly.	
d. There is a direct correlation between the level of transaction testing required and the results of the most current CAS 404 and CAS 409 compliance audits. The accuracy of net book value components should be transaction tested during CAS 404 and 409 compliance audits. If these audits are current and complete, transaction testing may be reduced. If these audits are not current and complete, increased risk may result and the level of transaction testing may need to be increased. Determine if the CAS 404 and CAS 409 compliance audits are current and complete.	
e. Examine the FAO permanent files (including ICAPS or ICQ, audit leads from other relevant audits, and MAARs Control Log) and prior audit workpackages to determine what data are available, what audit steps were done in the past, and the results from those steps. This will identify areas of high risk and/or areas where limited or no compliance testing is necessary.	
f. Discuss the planned compliance audit with the administrative contracting officer and, if appropriate, other customers to identify, understand, and document any concerns they may have or areas, which should be evaluated.	
g. Determine that the contractor uses the CASB-CMF Form for each cost accounting period in computing the proposed/final COM dollars.	
2. Entrance Conference and Preparation	
a. Arrange and conduct an entrance conference covering the areas highlighted in CAM 4-302 with particular emphasis on:	
(1.) Requesting the contractor's explanation of the internal control structure.	
(2.) Any changes since the last CAS 414 audit.	
(3.) The contractor's monitoring process.	
(4.) Any identified weaknesses which may have been reported and related follow-up actions.	
b. If reliance is to be placed on the work of others, the file should contain the required documentation (see CAM 4-1000).	
3. Risk Assessment	

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a. Assess the contractor’s internal control structure relative to this standard (control environment, accounting system, and relevant policies, procedures, and practices) to assure compliance with laws and regulations. (Completion of this step will assist in accomplishing MAAR 1.)	
b. 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:	
(1.)the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
(2.)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	
(3.)the tests that will be performed in this audit hat will be specifically designed to test the reliability of the computer-based data.	
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 10-807.3.	
c. In planning and performing the examination, review 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 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.	
d. From the information gathered in the preceding steps and using the materiality criteria in 48 CFR 9903.305:	
(1.)Assess the audit risk and determine the scope of audit and extent of compliance testing to be performed.	
(2.)Update the information in the permanent files as needed. (Completion of this step will assist in accomplishing MAAR 3.)	

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C-1	COM Factors - CASB-CMF FORM (Appendix A to 9904.414)	WP Reference
Version 5.0, dated April 2004		
If the contractor’s proposals and submissions have historically been mathematically accurate, then risk may decrease. If the contractor’s proposals and submissions have historically been mathematically inaccurate, then risk may increase.		
If forward pricing activity is significant or will substantially increase based on the contractor’s long-range plan, then risk may increase. A reduction in forward pricing activity may result in decreased risk.		
1.	Mathematical Accuracy	
Verify that the amounts computed in CASB-CMF are in accordance with Appendix A to 9904.414-Instructions for Form CASB-CMF. (Completion of this step will assist in accomplishing MAAR 19.)		
2.	Applicable COM Rate (Column 1)	
a. For forward pricing purposes determine that the latest available interest rates specified by the Secretary of the Treasury pursuant to Public Law 92-41, (distributed semi-annually by Headquarters) is used for each proposed cost accounting period (CAS 414.50(b)).		
b. For incurred cost purposes, determine that the COM rate is the weighted (not simple or midpoint) average of those published Secretary of Treasury rates in effect during the cost accounting period(s) applicable to the contract.		
3.	Accumulation of Direct Distribution of NBV (Column 2)	
If the contractor’s supporting documentation for acquisitions, leases, and depreciation amounts has historically been readily available and adequate, then the risk may be decreased. If the contractor’s supporting documentation for acquisitions, leases, and depreciation amounts has historically been unreliable, not readily available or inadequate, increased risk may result.		
If forward pricing activity is significant or will substantially increase based on the contractor’s long-range plan, then risk may increase. A		

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reduction in forward pricing activity may result in decreased risk.	
Determine that the net book values (NBV) used by the business unit for determining actual and projected COM are computed from the same accounting data as used for contract cost and estimating purposes, as appropriate (CAS 414.50(a)).	
a. For Tangible Assets:	
(1.) Determine that the estimates are supported by budget plans or similar type documentation.	
(2.) Determine that the actual NBVs are supported by historical asset records. (Completion of this step will assist in accomplishing MAAR 14.)	
(3.) Verify that the acquisition costs of assets were based on provisions of CAS 404.	
(4.) Determine that the depreciation charges are the same as those used for projected/final overhead rates. (Completion of this step will assist in accomplishing MAAR 14)	
(5.) Verify that the depreciation methods and service lives for assets were based on provisions of CAS 409.	
b. For Intangible Assets:	
(1.) Determine that such assets generate an allowable amortization charge. If not, remove assets from COM computation. If yes, perform the following steps.	
(2.) Determine if the estimates are supported by budget plans, and/or	
(3.) Determine if the actual costs are supported by historical asset records. (Completion of this step will assist in accomplishing MAAR 14)	
(4.) Determine that the acquisition costs and the amortization charges used to compute the NBV are reasonable and are the same as used for projected/final overhead rates.	
c. When the projected NBVs are based on or are the same as the actual data from a contractor's latest cost accounting period, determine that such experience is representative of the projected period(s).	
d. Existence of idle facilities, potential idle facilities, or assets not in use may increase risk. Restructuring activities or other reorganizations may result in unutilized assets that may indicate increased risk. Determine that the asset base includes only those assets used in the regular course of business. Perform analysis to determine if unutilized or underutilized	

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<p>assets are an integral part of the regular operations of the business. Land should be included if the contractor can support its purchase as an integral part of its operations. The following assets should not be included:</p>	
<p>(1.) Land held for speculation or expansion.</p>	
<p>(2.) Idle facilities or capacity in accordance with FAR 31.205-17.</p>	
<p>(3.) Assets under construction and not in use.</p>	
<p>e. Determine that the inclusion or exclusion of assets is consistent with the allowability or unallowability of the costs generated by those facilities for proposed and incurred cost purposes. (Completion of this step will assist in accomplishing MAAR 16.)</p>	
<p>f. Determine that the amounts shown for estimated/actual NBV represent the mean (simple average) of the beginning and ending NBV.</p>	
<p>(1.) Where there is a major fluctuation in the level of the assets, the simple averaging of the NBVs may not be appropriate. In this case recommend a method for calculating an average that more accurately reflects the actual condition.</p>	
<p>(2.) When applicable, request an assist audit for NBV amounts included for the business unit's allocable share of corporate or group home office facilities.</p>	
<p>g. At a Corporate home office determine that the NBV of assets held by the corporate or group home office are allocated to the business units on a basis consistent with the home office allocation. (If a CAS 403 compliance audit has been recently completed, then information available in it should assist in completing this step.)</p>	
<p>h. Determine if the capitalized value of leases for which constructive costs of ownership are allowed in lieu of rental costs under Government procurement regulations are included.</p>	
<p>4. Allocation of Distributed and Undistributed Amounts (Column 2 and Column 3)</p>	
<p>Determine that the total NBV of facility assets are identified and allocated to indirect cost pools and G&A as distributed (Column 2) and undistributed (Column 3). The following criteria should be used:</p>	

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a. Distributed amounts represent NBV of the assets which are charged to a specific cost pool.	
b. Undistributed amounts represent the difference between the total NBV of the business unit’s assets (Column 2) and the distributed amounts. Undistributed assets consist primarily of items charged to service centers.	
(1) Under the regular method, undistributed assets represent the allocation to the appropriate indirect expense pools on a basis that approximates the actual absorption of depreciation/amortization of the facilities. Determine that these amounts are allocated on a reasonable basis.	
(2) Under the alternative method the undistributed assets represent the allocation to the G&A expense pool. The alternative method may be used only if the contracting parties agree that depreciation / amortization generated by the undistributed assets is immaterial or the results obtained from this alternative procedure are comparable to those which would have been obtained under the regular method. Determine that these are allocated entirely to the G&A pool.	
(3) Determine that the sum of the amounts in Column 3 equals the total undistributed amount in Column 2.	
5. COM For The Cost Accounting Period (Column 5)	
Determine that this column is the sum of products of the applicable cost of money rate times the NBVs (Column 4) for each of the indirect cost pools and the G&A pool (CAS 414.40(b)).	
6. Allocation Base for the Cost Accounting Period (Column 6)	
Determine that the allocation bases used for: (completion of this step will assist in accomplishing MAAR 18)	
a. Projected COM factors are consistent with those used in estimated overhead rates. (Completion of this step will assist in accomplishing MAAR 18.)	
b. Final COM factors are the final audit determined or negotiated allocation bases used to finalize flexibly priced contracts.	

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D-1	Proposed and Final COM Dollars	WP Reference
Version 5.0, dated April 2004		
1.	If the contractor excludes the COM from its proposal or claim for reimbursement, such costs are unallowable in accordance with FAR and may not be included in profit. In addition, the contractor is still required to compute the COM factors and the failure to do so is considered a violation of a requirement of the standard. However, the noncompliance usually does not result in increased costs paid by the Government. Therefore, issue noncompliance reports only if the acquisition office or the ACO requests them.	
2.	Determine if the contractor’s practice is to include COM in its price proposals. Include a comment in the audit report advising the contracting officer of the contractor’s estimating practice and that COM is not allowable per FAR unless specifically identified or proposed in cost proposals relating to contracts under which COM is claimed.	
3.	Determine that the final COM factors are submitted along with other final overhead rates for a cost accounting period.	
	The incurred COM may be supported by a memorandum record (need not be entered formally on the books of account). Determine that the memorandum record should be supported by a final CASB-CMF Form and other data which shows the application of final factors to actual indirect cost pool(s) allocation base(s) for the final costs claimed on flexibly price contracts.	
4.	The COM factors may or may not be included in the G&A base. Determine that this alternative is consistently applied.	
5.	Determine there is no application of profit/fee to the COM dollars.	

A-1	Concluding Steps	WP Reference
Version 5.0, dated April 2004		
1.	Summarize the results of audit.	
2.	Discuss results with the CAS technical specialist and/or the supervisor. The auditor should report only those noncompliances which are considered material (see CAM 8-302.7).	
3.	Coordinate significant or unusual issues with the CFAO, FAO Manager, and if applicable, with the CAC, CHOA, or GAC network (see CAM 8-302.4 8-302.6). Coordination should be both before and	

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<p>after discussion of results with the contractor. The CFAO should be apprised of noncompliance matters at the earliest possible date. If a noncompliance is considered immaterial, recommend to the CFAO that the contractor be notified to reserve the Government's right should the cost impact become material (see FAR 30.602).</p>	
<p>4. Prepare draft audit report in accordance with CAM 10-807 (activity code 194XX) when no instances of noncompliances are found, or CAM 10-808 (activity code 19200) when instances of noncompliances are found.</p>	
<p>5. Conduct an exit conference with the contractor in accordance with CAM 4-304.</p>	
<p>6. Finalize audit report incorporating the contractor's response and audit rejoinder, if applicable.</p>	
<p>7. 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:</p>	
<p>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.</p>	
<p>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.</p>	
<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</p>	

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<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>	
<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>	

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<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>	
<p>8. Update the permanent files, i.e., ICAPS or ICQ, and Mandatory Annual Audit Requirements (MAARs) schedules. The relevant ICAPS are Environment and Overall Accounting Controls, IT Systems General Internal Controls, Billing System, Budget and Planning System, Indirect and ODC System, and Estimating System. (Completion of this step will assist in accomplishing MAARs 1 and 3). <i>Ensure that a copy of DMIS Report No. CAS 3 entitled “CAS Compliance Testing (Activity Code 194XX)” is included in the permanent file after the assignment has been closed in DMIS.</i></p>	