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Activity Code 19415		Compliance Audit CAS 415
Version 5.0, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
<p>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 415 establishes criteria for the measurement of the cost of deferred compensation and the assignment of such cost to cost accounting periods. This standard is applicable to the cost of all deferred compensation except for compensated personal absence and pension plan costs which are covered in other cost accounting standards. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 415 criteria (48 CFR 9904.415). FAR 31.205-6(k) makes CAS 415 applicable to all contracts subject to the FAR Part 31 cost principles, even contracts which are not CAS-covered or subject only to modified coverage.</p>		
<p>2. The scope of this audit should generally be limited to the current contractor fiscal year (CCFY). Testing of prior years' transactions, especially open 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. Some level of transaction testing should be performed if the standard/provision of the standard is material. The auditor and the technical specialist and/or the supervisory auditor should agree upon the level of transaction testing in setting the scope of the audit. This understanding should be documented in the working papers.</p>		
<p>3. This program is intended to provide for the proper planning, performance, and reporting on the contractor's compliance with CAS 415. The audit steps in the program should reflect a documented understanding between the auditor, the 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.</p>		
Other Planning Considerations		
<p>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</p>		

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<p>impact on Government contract costs, there is no need to test whether the contractor is complying with the standard. See DoD CAS Working Group Guidance Paper 76-7 which regards applicability and effective dates for standards).</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. Determine if the contractor has deferred compensation claimed or proposed and its impact on Government contracts. Also, consider whether the contractor’s costs are categorized properly as pension costs (subject to CAS 412/413) versus deferred compensation costs (subject to CAS 415). For a plan to be a pension plan, the official plan documents must offer the plan participants: (i) benefit payments for life or (ii) benefits that are payable for life at the option of the participants.</p>
<p>4. Once it is determined CAS 415 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.).</p>
<p>5. Determine if the contractor or its corporate/home office controls the deferred compensation costs (i.e., controls the measurement and assignment of costs to cost accounting periods). If the contractor’s recorded costs represent an allocation of costs from the corporate and/or home office, determine if an assist audit is needed. Do not issue a CAS compliance audit report at the segment level for costs that are controlled by the segment’s corporate/home office.</p>
<p>6. The decision not to test whether the contractor is complying with the standard and/or specific provisions of the standard should be documented. (See CAM 8-305, CAS Compliance Testing.)</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 415, CAM 8-415, and any recent Headquarters guidance not incorporated in CAM.	
	b. Determine if the contractor has any deferred compensation.	

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Ascertain if the contractor completed Part VII of its disclosure statement. Evaluate the contractor’s incurred cost submissions, forward pricing proposals, and/or financial statements (MAARs No. 4) to determine if deferred compensation is included.	
c. Evaluate Part VII of the contractor's Disclosure Statement and related polices and procedures to become familiar with the disclosed accounting practices.	
d. Determine if the contractor's accounting system has remained unchanged since the last CAS compliance audit. If changes have occurred, adjust audit scope accordingly.	
e. Examine other FAO permanent file data (e.g. relevant audit leads, MAARs Control Log, etc.) and prior relevant audit work packages 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. Document results.	
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.	
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.) Identifying any changes made since the last audit and any changes planned.	
(3.) Obtaining an understanding of the contractor's monitoring process.	
(4.) Obtaining copies of all plan documents. Ensure we have copies of the most recent documents.	
(5.) Identifying any weaknesses which may have been reported and related follow-up actions. Request copies of any internal or external audit reports regarding costs of deferred compensation.	
b. If reliance is to be placed on the work of others, the file should contain the required documentation (see CAM 4-1000).	

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3. Risk Assessment	
a. Examine the ICQ or relevant ICAPS (whichever is applicable), to obtain information regarding accounting system adequacy, identify any known outstanding system deficiencies, and perform preliminary assessment of risk. Document results.	
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 that 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. 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. Draft audit report paragraph.	
d. Determine the following:	
(1.)The amounts and types of deferred compensation awards claimed and/or currently provided to employees. Include open unaudited contractor fiscal years, current fiscal year, and, if available, budgeted years in this analysis. Suggested sources include incurred cost submissions, forward pricing proposals, or financial statements. Obtain contractor's budget for future years.	
(2.)The Government participation by type of contract.	
(3.)Significant cost accounts.	

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(4.)Provisions of the standard are significant.	
(5.)Some level of testing should be performed if the standard/provision of the standard is material. The extent of transaction testing should be commensurate with audit risk. If the standard/provision of the standard is not applicable or is immaterial, curtail the audit/audit scope. Document the decision to continue/curtail the audit of the standard/provision of the standard.	
(6.)Determine whether the contractor properly categorized its deferred compensation and pension plans. For a plan to be a pension plan, the official plan documents must offer the plan participants benefit payments payable for life or benefits that are payable for life at the option of the participants.	
e. 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.	
f. From the information gathered in the preceding steps and using the materiality criteria in 48 CFR 9903.305, assess the audit risk and determine the scope of audit and extent of compliance testing to be performed.	
g. Update the information in the permanent files as needed.	

C-1	Basic Requirements	WP Reference
	Version 5.0, dated April 2004	
	1. For the plan(s) selected for examination, ensure that the plan documents on hand are the most recent available. Confirm that the items covered in W/P D-1 and E-1 are detailed in the plan document.	
	2. To properly assign costs to the appropriate period, the facts and circumstances of the award must be known. Ascertain the facts and circumstances of the award. Determine if deferred compensation is assigned to the cost accounting period in which the contractor incurs the obligation. (CAS 415.50(a)). An obligation exists when all of the following conditions are met:	
	(1) there is a requirement to make future payment(s) which the	

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contractor cannot unilaterally avoid;	
(2) the award is to be satisfied by a future payment of money, other assets, etc.;	
(3) the amount of the future payment can be measured with reasonable accuracy;	
(4) the recipient is known;	
(5) the terms of the award require certain events to occur before an employee is entitled to receive the benefits, and there is a reasonable probability that such events will occur (e.g., awards are made if certain production levels are met and these production levels historically are reached approximately 80 percent of the time);	
(6) for stock options, there is a reasonable probability that options ultimately will be exercised.	
3. Verify through examination of the award provisions that all applicable conditions for establishing the obligation for compensation have been met for those awards in which the entire cost is recognized in the year of award.	
4. If no obligation is incurred prior to payment, verify that the deferred compensation cost is recorded only when paid.	
5. Determine that the cost of each award is considered separately for purposes of measuring and assigning costs to cost accounting periods. If the cost of deferred compensation can be measured with reasonable accuracy on a group basis, separate computations for each employee are not required (CAS 415.50(c)).	

D-1	Compensation Paid In Money (MAAR 16)	WP Reference
Version 5.0, dated April 2004		
1.	Determine whether the deferred compensation paid in money is computed in accordance with a, b, or c below. Evaluate each deferred compensation plan to determine whether the payment of interest is required. For each plan that provides for interest, check the contractor's annual interest cost calculation to ascertain that only interest costs for which the rates are fixed or based on specific indices have been accrued.	
a.	If the award provides that the amount to be paid shall include the principal of the award plus interest at a rate fixed at the date of award, such interest shall be included in the computation of the	

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amount of future benefit (CAS 415.50(d)(1)).	
b. If the award provides for payment of principal plus interest at a rate not fixed at the time of award but based on a specified index determinable in each period, such interest shall be included in the computation of the amount of future benefit. The interest rate used shall be the rate in effect at the close of the period in which the cost is assignable. Adjustments to cost shall be made in any period where actual rates vary substantially from the rate used in the calculation (CAS 415.50(d)(2)).	
c. If the award provides for payment of principal plus interest at a rate not based on a specified index or not determinable each year:	
(1) The cost for the principal of the award shall be the present value of the future benefits and shall be assigned to the period in which the employer incurs an obligation (CAS 415.50(d)(3)(i)).	
(2) The interest on such awards shall be assigned to the period in which payment is made (CAS 415.50(d)(3)(ii)).	
2. Determine that awards based on future services are assigned to the periods of current and future service based on the facts and circumstances of the award. The cost for each period shall be the present value of future benefits calculated as of the end of each period (CAS 415.50(d)(4)).	
3. Determine that the present value is based on the discount rate established by the Secretary of the Treasury (CAS 415.50(d)(5)).	
4. Where the award is made under a plan which requires irrevocable funding (including interest) of future payments to employees, the amount assigned to the period of the award is the amount irrevocably funded into the trust (CAS 415.50(d)(6)). Evaluate the deferred compensation plans and trust provisions to determine if irrevocable funding is required. If so, verify that the amount irrevocably funded is assigned to the cost accounting period in which the funding occurs.	
5. For small closely held contractors, if the amount is not funded, the requirements of FAR 31.205-6(b)(2)(i) and (iv) apply. Compensation is allowable to the extent it is reasonable for the personal services rendered and does not constitute a distribution of profits. During incurred cost and/or forward pricing proposal audits, auditors should verify that compensation is not recognized in amounts exceeding those costs that are deductible as compensation under the Internal Revenue Code and regulations under it. If this step has not been performed in other audits, consider expanding the scope of the audit to include this.	
6. Any forfeiture which reduces the employer's obligation for payment of deferred compensation shall be a reduction of contract costs in the	

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<p>period in which the forfeiture occurs. Evaluate the contractor’s policies and procedures regarding reductions for forfeitures. Request the contractor to provide documentation of its reviews/calculations of reductions for forfeitures (CAS 415.50(d)(7)).</p>	
<p>7. Verify that the reduction was the amount of the award that was assigned to a prior period, plus interest compounded annually, using the same Treasury rate at the time the cost was assigned. For irrevocably funded plans, verify that the reduction is the amount initially funded plus or minus a pro-rata share of the gains and losses of the fund (CAS 415.50(d)(7)).</p>	
<p>8. For group plans, evaluate estimated forfeitures, based on the contractor’s past experience and its future expectations. Verify the reasonableness of estimated forfeitures. If the cost of deferred compensation for group plans is determined to be greater than the amounts initially assigned because the forfeiture was overestimated, verify that the additional cost attributable to the incorrect estimate is assigned to the period when the revised costs becomes known. (CAS 415.50(d)(8)).</p>	

E-1	Compensation Paid in Other than Money	WP Reference
Version 5.0, dated April 2004		
1.	Obtain the contractor’s support for the amounts recorded for compensation paid in other than money.	
2.	For awards made in stock of the contractor, the cost of deferred compensation for such awards shall be based on the market value of the stock on the measurement date (CAS 415.50(e)(1)).	
a.	The measurement date is the date the number of shares awarded becomes known. For deferred compensation ESOPs, the date the contractor transfers the stock to the Employee Stock Ownership Trust (ESOT) or pledges the stock as loan collateral on behalf of the ESOT is the first date that the number of shares awarded is known. Thus for leveraged ESOPs, the measurement date is the date the contractor transfers the stock to the ESOT or pledges the stock as loan collateral on behalf of the ESOT. (For ESOPs, see CAM 7-2114.)	
b.	The market value is indicated:	
	(1) By market quotations for stock publicly traded in substantial quantities.	
	(2) Independent appraisal evaluations for stock not publicly traded in substantial quantities (e.g., closely held corporations).	

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<p>Determine if the data used in making the valuation is current, accurate, and complete and if the assumptions underlying the valuation are reasonable. (For ESOPs stock evaluation, see CAM 7-2114.4.)</p>	
<p>3. As part of incurred cost and/or forward pricing audits, auditors should ensure that unallowable plan costs are not included. Refer to FAR 31.205-6(i) for descriptions of unallowable deferred compensation costs. If this has not been performed in other audits, consider expanding the scope of this audit to evaluate for compliance with FAR Part 31.205-6(i).</p>	
<p>4. For awards made in the form of options to employees to purchase stock of the contractor, verify that the cost of deferred compensation of such award is the amount by which the market value of the stock (as indicated by market quotations) exceeds the option price multiplied by the number of shares awarded on the measurement date. If the option price on the measurement date is equal to or greater than the market value of the stock, no cost shall be deemed to have been incurred for contract costing purposes (CAS 415.50(e)(2)). Verify that no costs were recorded in this circumstance.</p>	
<p>5. Evaluate the terms of an award of stock or stock options to determine if the employee is required to perform future service in order to receive the stock or to exercise the option. If so, verify that the cost of the deferred compensation is appropriately assigned to the periods of current and future service based on the facts and circumstances of the award. Verify that the cost to be assigned is the value of the stock or stock option at the measurement date. (CAS 415.50(e)(3)).</p>	
<p>6. For an award made in the form of an asset other than cash, verify that the cost of deferred compensation for such award is based on the market value of the asset at the time the award is made. If a market value is not available, verify that the fair value of the asset is used. (CAS 415.50(e)(4)). Verify that the claimed market value of the asset is supported by a valid appraisal obtained from an outside source.</p>	
<p>7. If the terms of an award are made in the form of an asset other than cash or require that the employee perform future service in order to receive the asset, verify that the cost of the deferred compensation is appropriately assigned to the periods of current and future service based on the facts and circumstances of the award. (CAS 415.50(e)(5)). Determine the facts and circumstances of the award. Determine the basis on which the contractor prorates costs between current and future periods. If the plans do not clearly establish a basis for prorating costs between accounting periods, require the contractor to support the proration. Evaluate the contractor's support for reasonableness.</p>	

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<p>8. Determine if the contractor has properly considered forfeitures. Evaluate the contractor’s policies and procedures regarding forfeitures. Obtain the contractor’s support for recorded/estimated forfeitures or its support for not recording forfeitures. In computing the assignable cost for a period, any forfeitures which reduce the employer's obligations for payment of deferred compensation shall be a reduction of contract costs in the period in which the forfeiture occurred. The amount of the reduction shall be equal to the amount of the award that was assigned to a prior period, plus interest compounded annually, using the Treasury rate that was in effect at the time the cost was assigned. If the recipient of the award of stock options voluntarily fails to exercise such options, such failure shall not constitute forfeiture under provisions of the standard (CAS 415.50(e)(6)).</p>	
<p>9. Ascertain if the contractor’s award is a noncompensatory award. Noncompensatory stock option awards or other forms of stock purchase plans meeting specified characteristics in CAS 415.50(e)(7) are not covered by the standard, i.e.:</p>	
<p>a. Substantially all full-time employees meeting limited employment qualifications may participate.</p>	
<p>b. Stock is offered to eligible employees equally or based on a uniform percentage of salary or wages.</p>	
<p>c. An option or a purchase right must be exercised within a reasonable period.</p>	
<p>d. The discount from the market price of the stock is no greater than would be reasonable in an offer of stock to stockholders or others.</p>	

A-1	Concluding Steps	WP Reference
	Version 5.0, dated April 2004	
	1. Summarize the results of audit.	
	2. Discuss results with the supervisor or the FAO technical specialist. The auditor should only report 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 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	

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<p>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. Ensure the activity code 19415 audit report scope includes only those costs or provisions of the standard covered by the audit.</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 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</p>	

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<p>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>	
<p>m. Do Not File Sensitive Audits in iRIMS: Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not</p>	

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<p>be filed in iRIMS at this time. See CAM 4-407f for filing instructions.</p>	
<p>8. Update the permanent files, ICAPS (Control Environment and Overall Accounting Controls, and Indirect and Other Direct Costs) or ICQ (Part A, Organization, and Part E, Overhead), and Mandatory Annual Audit Requirements (MAARs) schedules (MAAR 1, 3, 4, 15, 16, and 20). <i>Ensure that a copy of DMIS Report No. CAS 3 entitled “CAS Compliance Testing (Activity Code194XX)” is included in the permanent file after the assignment has been closed in DMIS.</i></p>	