DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PAC 730.3.B.01/2006-14 August 29, 2006
06-PAC-030(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Evaluating Contractor Compliance with Cost Accounting Standards (CAS)

SUMMARY

This memorandum provides clarification of Agency guidance on evaluating a contractor's compliance with applicable CAS. A contractor's compliance with applicable CAS requirements must be considered during the performance of all routine audit assignments, such as proposal evaluations and incurred cost audits. In addition, it is DCAA's policy to perform an audit of a contractor's compliance with each applicable standard, except CAS 401, 402, 405 and 406, every three years. The scope of these CAS compliance audits will be limited to the most recent completed contractor fiscal year and the extent of substantive testing will be determined based on risk and the materiality of affected costs.

GUIDANCE

The CAS is a comprehensive body of cost accounting requirements for the measurement, assignment and allocation of cost. As such, the CAS requirements must be an integral part of a covered contractor's accounting system. When carrying out any contract audits or related services at contractors with CAS covered contracts, the auditor is expected to understand and consider applicable CAS compliance requirements. This understanding of CAS, as well as other applicable regulations, such as the FAR, allows dual purpose audit procedures to be carried out across the full spectrum of audit activities. For example, when performing transaction testing of incurred costs, the auditor is applying his/her knowledge of both FAR and CAS in determining compliance and allowability of cost. It is not efficient or required that the auditor list each applicable standard or FAR cost principle, the fundamental requirements, and the specific conclusion reached on each fundamental requirement where no non-compliances are found. Dual purpose testing ensures the full body of applicable FAR and CAS requirements are a part of the auditor's analysis and are considered in drawing audit conclusions. Audit opinions reflect conclusions reached on both FAR and CAS compliance requirements. An exception in this reporting is made when CAS non-compliances are found, as explained in CAM 8-302. A separate assignment and audit report is required in these circumstances.

In addition to testing for general CAS compliance in the manner described above, it is DCAA's policy to perform a compliance audit for each applicable standard (other than CAS 401, 402, 405, and 406) once every three years, unless circumstances at a particular contractor warrant

conducting the compliance audit sooner. These comprehensive CAS audits will be carried out under DMIS assignment codes 194XX and will cover the last completed contractor fiscal year. Risk and materiality will be considered in determining the nature and extent of substantive testing to be performed (e.g., low risk audits require only minimal testing). Auditors are reminded that, in order to express an audit opinion, some substantive testing is required for the period under review.

If FAO personnel have any questions, they should contact regional personnel. If regional personnel have any questions, they should contact Accounting and Cost Principles Division, at (703) 767-3248.

/Signed/
Terry M. Schneider
Deputy Assistant Director
Policy and Plans

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