

Master Document – Audit Program

Activity Code 19410		Compliance Audit CAS 410
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 410 establishes criteria for the identification and allocation of general and administrative (G&A) expenses to final cost objectives. It also establishes that G&A expenses shall be allocated on a cost input base which best represents the total activity of the business. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 410 criteria. 2. The scope of this audit should generally be limited to the contractor's current fiscal year (CCFY). Testing of prior year's 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 410. The audit steps in the program should reflect a documented understanding between the auditor, the technical specialist and 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, there is no need to test whether the contractor is complying with the standard. The decision to not test for CAS compliance should be documented (see CAM 8-305 and DoD CAS Working Group Guidance Paper 76-7). 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. 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; 		

Master Document – Audit Program

the extent of reliance that may be placed on the contractor's system of internal controls to ensure compliance; and the results of other relevant audits (e.g., results of prior compliance audits, Disclosure Statement examinations, etc.). The decision to not test whether the contractor is complying with specific provisions of the standard should be documented.

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 410, CAM 8-410, and any recent Headquarters guidance not incorporated in CAM.	
	b. Evaluate Parts IV of the contractor's Disclosure Statement to become familiar with the disclosed accounting practices. Determine if the contractor's Disclosure Statement has been approved for the period under examination.	
	c. Evaluate recent forward pricing or incurred cost proposals to determine whether total G&A costs 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 material, discuss with supervisory auditor before continuing audit.	
	d. 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.	
	e. 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 that 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:	

Master Document – Audit Program

(1) The contractor’s organizational structure.	
(2) The contractor's explanation of the internal control structure (<u>if necessary</u>).	
(3) Any changes since the last audit.	
(4) The contractor's monitoring process, including copies of internal audit reports on CAS.	
(5) Any identified weaknesses which may have been reported and related follow-up actions.	
(6) Contractor’s products, including how they are made (i.e., make vs. buy, GFM, etc.), and customers.	
(7) Any new developments with G&A implications, e.g., joint ventures, teaming arrangements, partnerships, etc. (See CAM 7-1800.	
(8) If the business unit receives any home office allocations or performs any home office functions.	
(9) Special Allocation(s) [CAS 410.50(j)].	
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	
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	

Master Document – Audit Program

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. Document assessment of 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.	
d. Determine high-risk areas by evaluating the most recent incurred cost or forward pricing proposal. Specifically examine the most current year for the following information:	
(1) Significant G&A accounts.	
(2) Nomenclature of accounts that do not meet the definition of G&A.	
(3) Comparative Analysis of Prior Years & Budgets, and Forward Pricing Forecasts (MAAR 15).	
(4) Determine provisions of the standard that are material.	
e. In planning and performing the examination, consider 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 transaction testing to be performed to determine the contractor’s compliance with CAS 410.	
g. Update the information in the permanent files as needed.	

C-1	Evaluation of the Contractor’s Organization and Operations	WP Reference
Version 5.0, dated April 2004		
1.	Obtain current organization charts, product descriptions, description of operations, department descriptions, and other data describing the functions, activities and responsibilities of the various contractor	

Master Document – Audit Program

operations (MAAR 3).	
2. Using the data gathered in Step 1, determine if the contractor has correctly identified the business unit as defined in CAS 410.30(a)(2).	

D-1	Evaluation of G&A Expense Pool	WP Reference
Version 5.0, dated April 2004		
1.	From the contractor’s most recent incurred cost claim or Forward Pricing Rate Proposal (FPRP), obtain the following data:	
a.	cost input base	
b.	breakdown G&A expenses, including any expenses which do not meet the definition of G&A	
c.	computation of the G&A expense rate (MAAR 19)	
2.	Determine if G&A expenses are grouped in a separate pool and allocated only to final cost objectives (CAS 410.40(a)) or if the G&A expenses are combined with other expenses, the G&A expenses can be separately identified (CAS 410.50(b)).	
3.	Determine if the expenses included in the G&A expense pool meet the definition of G&A expense in CAS 410.30(a)(6). (MAAR 16)	
a.	Obtain a detailed breakdown of the actual costs or departmental budget and organization charts for the selected categories of expense(s) /department(s).	
b.	Interview managers and determine if the activities in this area benefit the business unit as a whole.	
c.	Verify manager’s assertions about department or organization activities. Evaluate department descriptions, position descriptions, signature authority, policies & procedures, correspondence, etc.	
d.	Expenses which do not meet the CAS 410 definition of G&A but which have been classified as G&A may remain in the G&A Expense pool unless they can be allocated on a better base than the selected G&A base (CAS 410.40(d)) or if insignificant in amount, the expenses may be included in the G&A Expense pool (CAS 410.40(a)).	
e.	If a single element or value-added cost input base is used, verify that the G&A expense pool is purified of “direct material” and “subcontract” related expenses.	

Master Document – Audit Program

E-1	Business Unit G&A Expenses Allocated from the Home Office	WP Reference
Version 5.0, dated April 2004		
1.	Ensure home office expenses received by a segment are allocated to the segment's cost objectives as follows:	
a.	Evaluate the following types of home office expenses allocated to the business unit to determine if costs are related to the unit as a whole. If so, the costs shall be included in the unit's G&A pool (CAS 410.50(g)(1)):	
	(1) Residual expenses	
	(2) Line management expenses	
	(3) Directly allocated G&A type expenses	
b.	Evaluate separately allocated home office expenses to determine if a beneficial/causal relationship to a final cost objective is measurable and allocated in proportion thereto (CAS 410.50(g)(2)).	
2.	Ensure G&A expenses of a segment incurred by another segment are removed from the incurring segment's G&A pool and allocated to the benefiting segment on a beneficial or causal relationship.	
3.	When a segment performs home office functions and also performs as an operating segment, determine if the expense of the home office functions are segregated and allocated on a causal/beneficial relationship to all causing or benefiting segments (CAS 410-50(h)).	
a.	Determine the affect organizational changes or reorganization has had on G&A allocation by examining organization charts; and	
b.	Discuss those divisions, product departments, plants, or other subdivisions of the organization that have responsibility for profit and or producing a product or service with the contractor.	

F-1	G&A Allocation Base	WP Reference
Version 5.0, dated April 2004		
1.	Using the data obtained from the contractor's most recent incurred cost claim or FPRP, determine:	
a.	The type of G&A base used by the contractor, i.e., total cost input, value added or single element.	

Master Document – Audit Program

<p>b. Request the contractor’s rationale for using a particular cost input base.</p>	
<p>c. Obtain the composition of the contractor’s cost input base. To the extent practicable, obtain the composition by contract by cost element, etc.</p>	
<p>2. Determine if G&A expenses are allocated to final cost objectives by means of a cost input base representing the total activity of the business unit for the cost accounting period (CAS 410.40(b)(1)). (MAAR 18)</p>	
<p>a. Evaluate the contractor’s rationale for using a particular cost input base.</p>	
<p>b. Evaluate if “direct material” and “subcontracts” causes a distortion in the allocation of G&A expense.</p>	
<p>3. Evaluate the allocation base in relation to the pool expenses (ref.W/P D-1, Step 3):</p>	
<p>a. Do the G&A expenses have a causal/beneficial relationship to the cost objectives in the G&A allocation base?</p>	
<p>b. Does the contractor’s base selected best represent the total activity of the business unit?</p>	
<p>4. Ascertain that all costs of the applicable cost input base are included in the computation of the G&A allocation base. The cost input base used shall include all significant elements of that cost input, which represents the total activity of the business unit. Cost input shall include those expenses which by operation of this standard are excluded from the G&A expense pool, and are not part of a combined pool of G&A expenses and other expenses allocated using the same allocation base (CAS 410.50(d)(1),(2), and (3)).</p>	
<p>a. When computing a value-added base—care should be taken when deducting “direct material” and “subcontract” costs from total costs when computing a value added base. Determine if the contractor made appropriate inclusions and/or exclusions from the value added base:</p>	
<p>(1) Determine if the contractor has properly classified purchased direct labor as “direct labor” and not as a “subcontract.”</p>	
<p>(2) Determine if other expenses in Other Direct Costs are properly classified.</p>	
<p>b. If applicable, evaluate cooperative arrangements (partnerships, teaming arrangements or collaboration agreements) which may limit or avoid the allocation of G&A expenses that is normally allocated to subcontracts:</p>	

Master Document – Audit Program

<p>Evaluate written agreements carefully to see if the characteristics of joint control and management usually associated with joint ventures are evident. If the characteristics of joint control and management are not evident, then the terms of the business arrangement should be evaluated to see if a prime contractor/subcontractor relationship exists and should be included in the G&A allocation base.</p>	
<p>c. Determine if the contractor has included all applicable costs, including unallowable costs, in the G&A allocation base.</p>	
<p>5. A special allocation to a particular final cost objective is permitted when the cost objective receives significantly more or less benefit from G&A than would be reflected by an allocation using the selected G&A cost input base. If there is a special allocation:</p>	
<p>a. Verify that the contractor provided a change in its disclosed cost accounting practices to the CFAO for approval of the special allocation.</p>	
<p>b. Determine if the particular contract or final cost objective is different from the normal operations and activities of the business.</p>	
<p>c. Verify that the amount of the special allocation has been excluded from the G&A pool; and</p>	
<p>d. Verify that the particular final cost objective's cost input has been excluded from the G&A base (CAS 410.50(j)).</p>	
<p>6. Determine that the cost input for items produced for stock or product inventory, if any are included in the G&A base for the period incurred (CAS 410.50(i)(1)).</p>	
<p>7. For allocating G&A to items produced for inventory, one of two methods may be used. However, the method selected must be consistently applied:</p>	
<p>a. G&A for the period in which the items are produced may be inventoried (CAS 410.50(i)(2)); or</p>	
<p>b. G&A rate for the period in which items are issued to final cost objectives may be used to determine the G&A expenses applicable to issues of stock or product inventory items-(CAS 410.50(i)(3)).</p>	

A-1	Concluding Steps	WP Reference
Version 5.0, dated April 2004		
1.	Summarize the results of audit	

Master Document – Audit Program

<p>2. Discuss results with the technical specialist and supervisor. The auditor should only report those noncompliances which are considered material (see CAM 8-302.7).</p>	
<p>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 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</p>	

Master Document – Audit Program

<p>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 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</p>	

Master Document – Audit Program

<p>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. <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 schedules. <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 as been closed in DMIS.</i></p>	
<p>9. If the control risk assessment is being revised as a result of this examination, a separate flash internal control report should be issued.</p>	