

**Master Document – Audit Program**

<b>Activity Code 19417</b>		<b>Compliance Audit CAS 417</b>
<b>Version 5.0, dated April 2004</b>		
<b>B-1</b>	<b>Planning Considerations</b>	
<b>Purpose and Scope</b>		
<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 417 establishes the criteria for the measurement of the cost of money attributable to capital assets under construction, fabrication, or development as an element of the cost of those assets. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 417 criteria (48 CFR 9904.417). FAR 31.205-10 makes CAS 417 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 costs, when significant, are in compliance with the provisions of CAS 417.</p>		
<p>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.</p>		
<p>3. This program is intended to provide for the proper planning, performance, and reporting on the contractor's compliance with CAS 417. 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.</p>		
<b>Other Planning Considerations</b>		
<p>1. Before beginning any CAS compliance audit, the auditor should first determine the contractor is subject to the CAS coverage. FAR 31.205-10(b) allows cost of money for capital assets under construction, whether or not the contract is otherwise subject to CAS. 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. The decision to not test for CAS compliance should be documented (see CAM 8-305 and DoD CAS Working Group Guidance Paper 76-</p>		

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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; 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.

<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
<b>1. Research and Planning</b>		
	a. Read and become familiar with the criteria in CAS 417, CAM 8-417, and any recent Headquarters guidance not incorporated in CAM.	
	b. Determine whether total costs subject to CAS 417 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. An important consideration for assessing risk for capital assets under construction is the adequacy of the contractor's accounting system. The auditor should determine whether the contractor's accounting system adequately records costs by project or asset and design a transaction testing plan accordingly. If the accounting practices for recording capital assets under construction have changed since the last CAS 417 compliance audit, increased risk may result.	
	d. Evaluate related parts of the contractor's Disclosure Statement to become familiar with the disclosed accounting practices. Determine if the contractor's accounting system has remained unchanged since the last CAS 417 compliance audit. If changes have occurred, adjust audit scope accordingly.	

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<p>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.</p>	
<p>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.</p>	
<p><b>2. Entrance Conference and Preparation</b></p>	
<p>a. Arrange and conduct an entrance conference covering the areas highlighted in CAM 4-302 with particular emphasis on:</p>	
<p>(1.) Requesting the contractor's explanation of the internal control structure.</p>	
<p>(2.) Any changes since the last CAS 417 audit.</p>	
<p>(3.) The contractor's monitoring process.</p>	
<p>(4.) Any identified weaknesses which may have been reported and related follow-up actions.</p>	
<p>b. If reliance is to be placed on the work of others, the file should contain the required documentation (see CAM 4-1000).</p>	
<p><b>3. Risk Assessment</b></p>	
<p>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.)</p>	
<p>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:</p>	

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(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. 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.)	

<b>C-1</b>	<b>Construction-In-Process</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
1. Evaluate the contractor's construction-in-process accounts for assets for each cost accounting period (subsequent to the applicability date) to determine:		
a. Whether the assets are subject to cost of money (COM). The auditor should assure that:		
(1) The asset will be used in the regular course of business. COM for CAS 417 purposes are included in the acquisition costs of the constructed assets only when the assets will be used in the regular business activity.		

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<p>(2) The allowability or unallowability of costs of the asset under construction as related to its intended purpose, is considered before any COM is allowed under CAS 417. (Completion of this step will assist in accomplishing MAAR 16.)</p>	
<p>b. Determine whether the construction projects include all direct and indirect costs properly allocable to such projects.</p>	
<p>One of the elements of such properly allocable costs is a share of the COM computed accordance with CAS 414 for the investment in facilities, which are already in service. Illustration of this requirement is included in CAS 417.60(a).</p>	
<p>2. Evaluate the contractor's supporting documentation for the COM to be included in the acquisition cost of assets, for each cost accounting period.</p>	
<p>a. Determine that such computation is based on a representative investment amount which gives appropriate consideration to the rate at which the costs of construction are incurred (CAS 417.50(a)(2)).</p>	
<p>(1) When the costs are incurred at a fairly uniform rate throughout the period, the mean average beginning and ending balances of the cost accounting period can be used to determine the representative investment amounts. See CAS 417.60(b) for an illustration of this criterion.</p>	
<p>(2) When major fluctuations are expected in the rate of cost incurrence during the cost accounting period, the use of the mean average for the beginning and ending balances (see Step 2.a.(1) above) will not produce a representative investment amount. In this case, determine that one of the following alternative methods are used:</p>	
<p>(a) Average the month-end-balances for the cost accounting period, or</p>	
<p>(b) Make separate calculations, using an appropriate investment amount and COM rate, for each month. See CAS 417.60(a) for an illustration of these criteria.</p>	
<p>b. Determine that the representative investment amount computed under step 2.a. above is factored by the applicable Secretary of the Treasury COM rate to calculate the cost of money dollars that are added to the construction-in-process account (CAS 417.50(a)(1)).</p>	
<p>(1) The COM rates to be used for each cost accounting period are the same rates published by the Secretary of Treasury for use in CAS 414 COM calculations.</p>	
<p>(2) When more than one COM rate is applicable to a cost</p>	

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accounting period, their time-weighted average will be used as the rate to be applied to the representative investment amount for each asset. See CAS 417.60(a) and (b) for an illustration of this criteria.	
(3) Where separate calculations for the COM are made each month (as provided in step 2.a(2) above), the sum of the monthly amounts may be entered into the construction-in-progress account once each cost accounting period.	
c. Determine that the COM dollars computed for a cost accounting period are included in the subsequent period's dollar balances used to calculate the representative investment amounts in accordance with 2.a(1) and (2) above. [See CAS 417.60(a) and (b) for an illustration of this requirement.]	
3. The contractor is permitted to use other methods for calculating the COM, such as the method used for financial accounting. When such an alternate method is used, determine that the result does not differ materially from the amount calculated using the COM rate per Steps 1 and 2 above (CAS 417.50(a)(3)).	
4. Determine that the COM is not capitalized when substantially all the activity necessary to get the asset ready for its intended use are discontinued. [However, the capitalization may still continue when discontinuance arises out of causes beyond the control and without the fault or negligence of the contractor.]	

<b>A-1</b>	<b>Concluding Steps</b>	<b>WP Reference</b>
<b>Version 5.0, dated April 2004</b>		
1.	Summarize the results of audit.	
2.	Discuss results with the technical specialist and/or the supervisor. 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 and 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).	
4.	Prepare a draft audit report in accordance with CAM 10-807 (activity code 194XX) when no instances of noncompliances are found, or	

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CAM 10-808 (activity code 19200) when instances of noncompliances are found.	
5. Conduct an exit conference with the contractor in accordance with CAM 4-304.	
6. Finalize audit report incorporating the contractor's response and audit rejoinder, if applicable.	
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:	
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.	
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.	
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.	
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.	
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.	
f. Once the report is signed, the signature page of the audit report	

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<p>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. <b><u>Do Not File Sensitive Audits in iRIMS:</u></b> 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</p>	

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<p>ICAPS are Environment and Overall Accounting Controls, IT Systems General Internal Controls, Billing System, Budget and Planning System, and Indirect and ODC 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 Code194XX)” is included in the permanent file after the assignment has been closed in DMIS.</i></p>	
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