

MASTER AUDIT PROGRAM

Activity Code 19200	CAS Noncompliance Report Assignment
B-1 Planning Considerations	Version 5.0, dated Jan 2023

Type of Service - Attestation Examination Engagement
Audit Specific Independence Determination
Members of the audit team and internal specialists consulting on this assignment must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment. <i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g., FAO technical specialist) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i>

Purpose and Scope
This assignment is an integral part of the originating assignment and is only used to report a CAS noncompliance that was identified as part of an incurred cost, price proposal, or any other type of audit that is not CAS related (i.e., not 19100 or 194XXs). The audit program steps in B-01, Evaluation of the Noncompliance include evaluating the CAS noncompliance, incorporating sufficient evidence, drafting the Statement of Condition and Recommendation (SOCAR), and soliciting the contractor's reaction. The audit program steps in C-01, Evaluation of Contractor's Reaction include evaluating the contractor's reaction and determining if it changed the team's assessment of the existence or significance of the CAS noncompliance. The CAS noncompliance should be either:
<ul style="list-style-type: none"> fully developed (condition and recommendation) and sufficiently supported in the originating assignment; or
<ul style="list-style-type: none"> sufficiently supported by limited additional work in this assignment that is necessary to fully develop the elements of a finding in accordance with GAGAS 7.27 through 7.30 and CAM 10-211.2c.
Completing this assignment entails:
<ul style="list-style-type: none"> reviewing the originating assignment to understand the CAS noncompliance;
<ul style="list-style-type: none"> incorporating sufficient and appropriate evidence to support the report findings and conclusions;
<ul style="list-style-type: none"> preparing the Statement of Condition and Recommendation (SOCAR);
<ul style="list-style-type: none"> evaluating the contractor's reaction; and
<ul style="list-style-type: none"> issuing the CAS noncompliance report or memorandum.

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Purpose and Scope
Generally, when an audit identifies a CAS noncompliance with more than one cost accounting standard, a separate CAS noncompliance audit report should be issued for each standard. However, if the CAS noncompliances are inter-related or inseparable, the noncompliances should be reported in the same audit report. Noncompliances are inter-related or inseparable if the resolution of one CAS noncompliance resolves the other CAS noncompliance. Usually, auditors should not issue multiple audit reports for noncompliances with a single CAS. (CAM 8-302.7(c)(2))
References
1. CAM Chapter 8, Cost Accounting Standards (CAS)
2. CAM Chapter 10, Preparation and Distribution of Audit Reports
3. 48 CFR Part 9900, Cost Accounting Standards (CAS)
4. FAR Part 30, Cost Accounting Standards Administration
5. FAR Part 31, Contract Cost Principles and Procedures
6. FAR Part 52.230-1 through 52.230-6, Administration of Cost Accounting Standards

B-1 Evaluation of CAS Noncompliance	WP Reference
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Note: <i>This assignment is an integral part of the originating assignment that identified the CAS noncompliance. Section B of this assignment is not an assessment of risk, and should be used to document the preliminary effort necessary to evaluate and document the CAS noncompliance, draft the SOCAR condition and recommendation, and solicit the contractor's reaction.</i>	
1. Determine if the CAS noncompliance was fully developed in the originating assignment, and incorporate the working papers that contain sufficient and appropriate evidence to support the existence of a CAS noncompliance. A fully developed finding must include the four Condition elements: condition, criteria, cause, and effect. (CAM 10-211.2c) Note: <i>When considering the effect, auditors should use the framework for reporting a CAS noncompliance in CAM 8-302.7.</i>	
2. In addition to the four Condition elements, the working papers for a CAS noncompliance should document the following:	
a. The type of CAS noncompliance (CAM 8-302.2 accumulating/estimating).	
b. The actual or estimated time the noncompliance has existed. Also, if the contractor implemented corrective action to correct the noncompliance, does the CFAO consider the action sufficient to reduce the future potential impact to the Government.	

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B-1 Evaluation of CAS Noncompliance	WP Reference
<p>c. The significance and/or rough order of magnitude (ROM) of the materiality if possible (48 CFR Part 9903.305 Materiality). While the cost impact is the contractor's responsibility, clearly communicating the effect on CAS covered contracts increases the persuasiveness of the SOCAR and the need for the contracting officer to require the contractor to take corrective action.</p>	
<p>3. If the CAS noncompliance SOCAR was not fully developed in the originating assignment, tailor this section of the audit program to include the limited additional procedures necessary to draft the Condition (condition, criteria, cause, and effect) and Recommendation of the SOCAR. (CAM 10-211.2c)</p>	
<p>4. Coordinate with other cognizant DCAA offices, as needed, to determine if the noncompliance impacts other business units. (Consider the organizational structure, allocations among business units, shared disclosure statement practices, etc.)</p>	
<p>5. Document the auditor's discussion with the contracting officer regarding the CAS noncompliance in accordance with CAM 4-105 and 8-302.4.</p>	
<p>6. Document the entrance conference and issue a notification letter to the contractor in accordance with CAM 4-302.3. Modify the notification letter based on the scope of the assignment (i.e. to report the noncompliance identified under the originating assignment).</p>	
<p>7. Prepare the draft statement of condition and recommendation (SOCAR) that includes the necessary four elements of a finding (i.e., condition, criteria, cause, and effect). (CAM 10-211.2c.)</p>	
<p>8. After management review and approval of the draft SOCAR, send the draft to the contractor and request a formal written response. (CAM 4-304.6(b) transmittal letter)</p>	

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C-1 Evaluation of Contractor's Reaction	WP Reference
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<p>1. Review the contractor's reaction to the SOCAR. Meet with the contractor to discuss and ensure the audit team fully understands the contractor's response. Document all interim discussions in the working papers. Invite the contracting officer to meetings with the contractor whenever possible and keep them informed throughout the assignment.</p>	
<p>2. Determine if the contractor's reaction changes the audit team's assessment of the existence or significance of the CAS noncompliance. Hold a team meeting with the Supervisory Auditor, FAQ, CAS Technical Specialist, Branch Manager, RAM etc. to discuss the status of the noncompliance.</p> <ul style="list-style-type: none"> • If the contractor's reaction does not change the audit team's initial assessment, incorporate a summary of contractor's reaction (CAM 10.211.2.c.) in the SOCAR Exhibit and include the contractor's full response in an Appendix to the report (CAM 10.212). Draft the auditor's response (rejoinder or rebuttal) to the contractor's reaction. • If the contractor's reaction changes the audit team's initial assessment, discuss the audit team's decision with the ACO/CFAO and the contractor's representatives. Close the assignment with a memorandum to the appropriate contracting officer and a letter to the contractor notifying them of the results. 	
<p>3. If the contractor's reaction includes comments on the ROM we calculated, or if the contractor provided a general dollar magnitude (GDM), verify the contractor's rationale and calculations. The auditor's response section of the SOCAR should provide enough detail on the GDM for the ACO to fully understand the basis for the calculations.</p>	
<p>4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.</p>	

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A-1 Concluding Steps	WP Reference
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<p>1. Prepare the draft CAS noncompliance report including an Exhibit with the Statement of Condition and Recommendation (SOCAR) that has sufficient information to enable the CFAO’s understanding of the condition and the severity of the CAS noncompliance. (CAM 8-302.7 and CAM Chapter 10)</p> <ul style="list-style-type: none"> a. Issue a noncompliance report for all violations of major requirements of CAS regardless of their effect on contract costs. b. Issue a noncompliance report for all significant/material noncompliances. c. Issue a noncompliance report when auditors identify both significant/material noncompliance(s), and immaterial noncompliance(s) that could become material if circumstances change. The immaterial noncompliance will be reported in a separate appendix of the report titled "Noncompliance that Warrants Attention of the Cognizant Federal Agency Official." A reference to the appendix for the immaterial noncompliance will be in the Executive Summary, but do not include in the Basis of Opinion section. d. Issue a report to the CFAO for a CAS noncompliance that is considered immaterial, but which could become material if circumstances change. <p>Note: <i>a CAS noncompliance report will not be issued when the auditor determines the noncompliance will never result in a significant adjustment.</i></p>	
<p>2. Upon the completion of the assignment, brief the contracting officer on the significance/materiality of the noncompliance, and document the communications in the working papers.</p>	
<p>3. After management approval, hold and document an exit conference with contractor representatives and the ACO/CFAO to discuss final results and recommended corrective action.</p>	
<p>4. Finalize the noncompliance audit report incorporating the auditor’s response, if applicable, and exit conference details.</p>	
<p>5. Complete the administrative working papers.</p>	
<p>6. Update the permanent files in accordance with CAM 4-405. Also, ensure that a copy of the Agency Reporting and Monitoring Systems (ARMS) Power BI Report CAS 2 entitled, “Tracking of Issued CAS Noncompliance Reports” (Activity Code 19100, 19200, 194xx) is included in the permanent file after the assignment has been closed in DMIS.</p> <p>Note: <i>It is important to provide the level of customer service necessary to facilitate the resolution of the cited CAS noncompliance and update the status of the assignment record in DMIS as the ACO/CFAO works through the resolution process.</i></p>	

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A-1 Concluding Steps	WP Reference
7. Submit the working paper package and draft report or memorandum to the supervisor/manager for final review and processing.	
8. Consider briefing the FAO on findings and any effect on the FAOs future audits.	