

# MASTER AUDIT PROGRAM

<b>Activity Code 19411</b>	<b>Compliance Audit CAS 411</b>
<b>B-1 Planning Considerations</b>	<b>Version 6.0, dated July 2020</b>

<b>Type of Service – Attestation Examination Engagement</b>
<b>Audit Specific Independence Determination</b>
Members of the audit team and internal specialists consulting on this audit 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 working paper. For example, an FAO may add additional auditors (e.g., technical specialists) 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>

<b>Purpose and Scope</b>
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 411 establishes criteria for the accounting of the acquisition costs of material. The standard does not cover accounting for the acquisition costs of tangible capital assets nor accountability for Government furnished materials. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 411 criteria.
2. The scope of this audit should be limited to the last completed contractor fiscal year. 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 411. 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.

<b>Other Planning Considerations</b>
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, the audit should be cancelled.
2. Materiality (see 48 CFR 9903.305) and audit risk assessment are integral parts of the planning process and should be considered in developing the extent of CAS compliance tests.
3. Once it is determined that the standard is applicable, the auditor should assess which provisions of the standard are significant to the contractor; assess control risk; and the results of other

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<b>Other Planning Considerations</b>
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.
4. Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.

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<b>B-1 Preliminary Steps</b>	<b>WP Reference</b>
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1. Research and Planning	
<p>a. Read and become familiar with the criteria in CAS 411. Identify any changes in the CAS 411 standard since the last examination.</p>	
<p>b. Evaluate Parts II and III 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 411 compliance audit. If changes have occurred, adjust audit scope accordingly.</p>	
<p>c. Evaluate recent forward pricing or incurred cost proposals to determine whether total costs subject to CAS 411 are material. Consider contractor's sales mix (i.e., CAS-covered Government contracts vs. non-CAS-covered and commercial). Materiality should be a consideration only in determining the extent of substantive testing.</p>	
<p>d. Examine other FAO permanent file data (e.g. relevant audit leads) 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.</p>	
<p>e. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures:</p> <ol style="list-style-type: none"> <li data-bbox="298 1171 1211 1430">(1) Ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions. (GAGAS 7.13)</li> <li data-bbox="298 1444 1211 1514">(2) Document the results of the inquiry and the impact of the corrective actions to the subject matter.</li> </ol>	

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B-1 Preliminary Steps	WP Reference
<p>f. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter. If there are no other studies or audits, document that information in the working papers and perform the procedures below.</p> <p>(1) Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit.</p> <p>(2) If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"> <li>• Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment.</li> <li>• Document the results of the determination in writing.</li> <li>• If assignment is at a major contractor location, coordinate with the CAD or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.</li> <li>• If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports.</li> <li>• The request should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative working papers.</li> </ul> <p>(3) If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> <li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.)</li> <li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li> </ul> <p>(4) Document the results of the inquiries including the response received from the contractor for any request for access to internal audit reports. (If access was not granted this should include the contractor's rationale or justification for not granting access).</p> <p>(5) Determine if additional audit procedures are needed to respond to identified risk.</p>	

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B-1 Preliminary Steps	WP Reference
g. If appropriate, coordinate with the FAO technical specialist, CAD, and/or regional specialist on matters of interpretation and policy.	
h. Contact the contracting officer to ascertain any known concerns that will impact the audit and adjust the audit scope and procedures accordingly.	
i. Notify the appropriate contracting officer of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.	
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 as related to CAS 411.	
(2) Any changes since the last audit.	
(3) The contractor's monitoring process for classifying costs.	
(4) Any identified weaknesses which may have been reported and related follow-up actions. If applicable, include a follow up with contractor management on: <ul style="list-style-type: none"> <li>• corrective actions that address previous DCAA audit findings and recommendations,</li> <li>• other studies or audits that impact the subject matter.</li> </ul>	
b. If relying on the work of others, following the procedures in CAM 41000.	
c. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
3. Risk Assessment	
a. Using the framework and the guidelines in WP B-02, obtain and document an understanding of the contractor's internal controls that are relevant to the audit. Auditors should be able to obtain a major portion of this understanding during a walkthrough of the subject matter.	

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<b>B-1 Preliminary Steps</b>	<b>WP Reference</b>
<p>b. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <p>(1) Their knowledge of any actual, suspected, or alleged fraud or noncompliance with laws and regulations affecting the period of time corresponding to the subject matter under audit. (AT-C 205.32)</p> <p>Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject matter. (GAGAS 7.14)</p> <p>(3) The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13)</p> <p>(1) <i>Note: Specifically document in the working papers; the inquiries and the corresponding responses as well as how the responses affect the performance of the engagement.</i></p>	

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<b>B-1 Preliminary Steps</b>	<b>WP Reference</b>
<p>c. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential material noncompliances, whether due to error or fraud, that could affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"> <li>• relevant prior audit experience (e.g., questioned cost, relevant reported accounting system deficiencies),</li> <li>• relevant aspects of the contractor and its environment,</li> <li>• risk of material noncompliance due to fraud (e.g., the extent of financial incentives, pressures to meet budgetary and contractual commitments, and opportunities to commit and conceal fraud). Consider the fraud risk factors and scenarios presented in the DoD OIG's webpage: <a href="#">Fraud Detection Resources for Auditors</a>. Copy link and paste into web browser,</li> <li>• other known risk factors identified that could materially affect the subject matter, and</li> <li>• the audit team's understanding of relevant key internal controls. Document the factors that increase the risk of material noncompliance due to error or fraud that could affect the subject matter, and design audit procedures to respond to the increased risk of material noncompliance.</li> </ul> <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of misstatement and noncompliance due to error or fraud.</p>	
<p>d. From the information gathered in the preceding steps and using the materiality criteria in 48 CFR 9903.305, identify and document the provisions of CAS 411 which are significant, assess the audit risk and determine the scope of audit and extent of compliance testing to be performed.</p>	
<p>e. Update the information in the permanent files as needed. (MAAR 3)</p>	

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C-1 Accounting for Acquisition Costs of Material	WP Reference
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NOTE: The evaluation of Policies and Procedures for compliance with CAS 411 requirements is mandatory for Material Management and Accounting system (MMAS) examinations. If a recent MMAS examination has been performed the steps below will have already been accomplished. Refer to the MMAS examination and incorporate the results of those audit program steps where applicable.	
1. Determine that the contractor has and consistently applies written statements of accounting policies and practices for accumulating the costs of material and for allocating costs of material to cost objectives (CAS 411.40(a) and MMAS Standards 1 and 7). The written statements of policies and procedures should address:	
a. Detailed descriptions of a material inventory record and an explanation on how it is used.	
b. Detailed description of the contractor's practices regarding material adjustments (discounts, credits, extra charges, etc.).	
c. Specific conditions and the requirements under which material costs may be directly allocated to cost objectives.	
d. The inventory costing method to be used for allocating material costs issued from inventory.	
2. Determine that the written statements of accounting policies and practices are consistent with the requirements of CAS 411 (MMAS Standards 1 and 7).	
3. MMAS Standard 1, requires the contractor to provide an adequate system description, including policies and procedures, and operating instructions compliant with FAR/CAS criteria.	
NOTE: The following steps require transaction testing to validate compliance with the requirements of CAS 411. The nature, timing and extent of testing will be based on the Risk Assessment information as documented in WP section B. The auditor should be aware that tests of details may have already been performed, or may need to be performed, for current MAAR 10 (Adjusting Entries and Exception Reports), MAAR 13 (Purchases Existence and Consumption) and Material System examinations. All tests of details performed for CAS 411 compliance examinations are also applicable to MMAS audits (MMAS Standard 7). The auditor should coordinate the testing of details, if possible, to incorporate the needs for the other evaluations to maximize audit resources. If testing for any of the other evaluations has been performed recently the auditor should consider incorporating the transaction testing results if possible.	
4. Determine that the cost of a category of material is (CAS 411.50(a)):	
a. The purchase price of material,	

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C-1 Accounting for Acquisition Costs of Material	WP Reference
b. Adjusted for extra charges, discounts and credits that are charged to the same cost objective as the purchase price unless impractical.	
c. If impractical, the auditor should determine that the contractor has a policy in place to provide for the allocation of such charges or credits to an appropriate indirect pool, and that the practice is consistently followed.	
5. Verify that, except as provided for in Steps 6 and 7 below, the cost of a category of material is accounted for in material inventory records (CAS 411.40(d)), such as card files, computer data, bin tags, or any other such informational record.	
<p>a. Determine that when the cost of materials is issued from a company owned inventory, the costing method used is a consistent method which results in a systematic and rational costing of issues of material to cost objectives (CAS 411.50(b)). One of the following methods shall be used:</p> <ul style="list-style-type: none"> <li>• First-In, First-out (FIFO),</li> <li>• Moving average,</li> <li>• Weighted average,</li> <li>• Standard cost, or</li> <li>• Last-in, First-out (LIFO).</li> </ul>	
b. Determine that the same costing method is used for similar categories of material. (CAS 411.50(c)).	
6. The costs of units of a material may be allocated directly to a cost objective provided the costs objective was specifically identified at the time the units were purchased or produced (CAS 411.40(b)). For materials charged directly, determine that the cost objective was specifically identified at the time the units were purchased or produced.	
7. Material may be allocated to an indirect pool, if it is used solely in performing indirect functions or if it is not a significant element of production costs, whether or not incorporated in an end product (CAS 411.40(c)). The auditor should determine that:	
a. Material allocated to an indirect pool are materials used solely in performing indirect functions, or	
b. The materials allocated to an indirect pool are not a significant element of production costs, and	
c. When the excess of ending inventory over beginning inventory of material allocated to an indirect pool is estimated to be significant in relation to total cost included in the pool, the cost of such unconsumed material is established as an asset at the end of the period by reducing the indirect cost pool by a corresponding amount (CAS 411.50(d)).	

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A-1 Concluding Steps	WP Reference
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1. Summarize and document the results of audit.	
<p>2. Discuss the audit results with the supervisor and, if applicable the technical specialist. The auditor should only report those noncompliances which are considered material. Coordinate significant or unusual issues with the CFAO, FAO Manager, and if applicable, with the CAD network (see CAM 8-302.4 and 8-302.6). Coordination should be both before and after discussion of audit results with the contractor. The CFAO should be apprised of noncompliance matters at the earliest possible date.</p> <p><i>Note: If a noncompliance is considered immaterial, but could become material if circumstances change, notify the CFAO through a memorandum. The memorandum will include a Statement of Condition and Recommendation (SOCAR) and provide the CFAO with sufficient information to understand the condition and the severity of the CAS noncompliance. The only exception to issuing a memorandum is if the audit report includes a material noncompliance(s). When a material noncompliance is reported, the immaterial noncompliance will be reported in a separate exhibit to the report titled "Noncompliance that Warrants Attention of the Cognizant Federal Agency Official." Reference to the exhibit for the immaterial noncompliance will be in the Executive Summary, but will not be included in the Basis of Opinion section, as it is not a material noncompliance.</i></p>	
3. Prepare draft audit report (and memorandum, if applicable). If the audit scope was limited to a certain area(s) of the contractor's accounting practices, modify the subject matter stated in the Report On (from WP A-01) and Opinion (from WP A) section of the report, as necessary, so that they clearly identify the limited areas audited.	
4. If a material weakness or significant internal control deficiency is detected during the course of this audit, ensure that the findings have been fully developed to determine if a significant deficiency in compliance with the DFARS 252.242-7006 criteria exists. If so, open a Business System Deficiency assignment (Activity Code 11090) to report the deficiency and submit it to the contractor for comment.	
5. Hold an exit conference with the contractor and provide a draft report (and memorandum, if applicable) to the contractor for comments in accordance with CAM 4-304. Obtain supervisory review, and management review if required, of the working papers and draft audit results section of the audit report (and memorandum, if applicable) before discussion with the contractor.	
6. Finalize audit report (and memorandum, if applicable) incorporating the contractor's reaction and auditor's response, if applicable.	

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<b>A-1 Concluding Steps</b>	<b>WP Reference</b>
7. Complete the administrative working papers.	
8. Update the permanent files. <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 has been closed in DMIS.</i>	
9. Submit the working paper package and draft report (and memorandum, if applicable) to the supervisor/manager for final review and processing.	