

## MASTER AUDIT PROGRAM

<b>Activity Code 19408</b>	<b>Compliance Audit CAS 408</b>
<b>B-1 Planning Considerations</b>	<b>Version 8.3, dated Jun 2025</b>

<b>Type of Service - Attestation Examination Engagement</b>
<b>Audit Specific Independence Determination</b>
<p>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.</p> <p><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></p>

<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 408 establishes criteria for uniformity in the measurement of costs of vacation, sick leave, holiday, and other compensated personal absence for a cost accounting period; thereby increasing the probability that the measured costs are allocated to the proper cost objective. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 408 criteria.</p>
<p>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.</p>
<p>3. This program is intended to provide for the proper planning, performance, and reporting on the contractor's compliance with CAS 408. The audit steps in the program should reflect a documented understanding between the auditor and 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.</p>

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<b>Planning Considerations</b>
1. Before beginning any CAS compliance audit, the auditor should first determine whether 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 relevant 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.
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-1 Preliminary Steps	WP Reference
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1. Research and Planning	
a. Read and become familiar with the criteria in CAS 408. Identify any changes in the CAS 408 standard since the last examination.	
b. Evaluate Parts III and VI of the contractor's Disclosure Statement items to become familiar with the disclosed accounting practices. Determine if the contractor's accounting system has remained unchanged since the last CAS 408 compliance audit. If changes have occurred, adjust the audit scope accordingly.	
c. From the most recent incurred cost proposal or forward pricing rate proposal, determine whether total costs subject to CAS 408 are material. Consider contractor's sales mix (i.e., CAS-covered Government contracts vs. not-CAS-covered and commercial) when determining materiality of costs subject to this standard. Materiality should be a consideration only in determining the extent of substantive testing.	
d. Examine the FAO permanent files (including audit leads from other relevant audits) and prior audit working paper packages to determine what data are available, what audit procedures were done in the past and the results from those procedures. This will identify areas of high risk and/or areas where limited or no compliance testing is necessary.	
e. Review permanent file to determine if previous audits included findings and recommendations that relate to the subject matter under audit. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures:  (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)  (2) Document the results of the inquiry and the impact of the corrective actions to the subject matter.	

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<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 work 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>	
<p>g. If appropriate, coordinate with the FAO technical specialist, CAD, and/or regional specialist on matters of interpretation and policy.</p>	

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B-1 Preliminary Steps	WP Reference
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) Compensated personal absence policy.	
(2) The contractor's explanation of the internal control structure.	
(3) Any changes since the last audit.	
(4) The contractor's monitoring process.	
(5) 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>	
(6) Chart of accounts applicable to CAS 408.	
(7) Account balances at the end of the two most recent accounting periods.	
b. If relying on the work of others follow the procedures in CAM 4-1000.	
c. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
3. Risk Assessment	
a. Obtain and document an understanding of contractor internal controls relevant to the audit. Auditors may obtain a significant portion of this understanding during the walkthrough.	
b. Management Inquiries  During the entrance conference or other appropriate meeting make the GAGAS required inquiries of contractor management. Using the framework of WP B-05, document the contractor's response, and identify areas of risk and the impact to the audit scope.	B-05

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<b>B-1 Preliminary Steps</b>	<b>WP Reference</b>
c. Fraud Risk Indicators  Using the framework in WP B-09, discuss the fraud risk indicators with the audit team.	B-09
d. 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 compliance testing to be performed.	
e. Coordinate the scope of audit with the technical specialist and/or the supervisor.	
f. Update the information in the permanent files as needed.	

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C-1 Compensated Personal Absence	WP Reference
<b>Version 8.3, dated Jun 2025</b>	
1. Evaluate the contractor's written compensated personal absence (leave) policies, understand if the contractor has one or more plan or custom for compensated personal leave (vacation, sick, holidays, etc.), and verify that the written policies are consistently followed by the contractor.	
a. For each plan, determine when entitlement is earned. Entitlement is generally explained in the plan, custom or disclosed accounting practices and is earned when the contractor (the employer) has an obligation to pay. (CAS 408.50(a)).	
b. Test the contractor's computation of earned entitlement for a given accounting period for a sample of employees by referring to source documents supporting the journal entries. The contractor's calculation of earned entitlement should be in accordance with the requirements of CAS 408.50(b)(2).	
2. Evaluate the contractor's disclosed accounting practices, and determine if the accounting treatment for compensated personal absence is on the <i>cash</i> or <i>accrual</i> basis. (CAS 408.40(a)).	
a. If the accounting treatment is on the cash basis, verify that the contractor has assigned to the cost accounting period the cost of all compensated personal leave paid to employees during the period. There should not be a carry-forward liability for compensated personal leave if the contractor is not required to pay the employees for unused leave upon termination.	
b. If the accounting treatment is on the accrual basis, evaluate the contractor's journal entries and verify that the contractor has assigned	
to the cost accounting period the costs of all the entitlement the employees earned during the period. Generally, a compensated personal leave liability account in the general ledger will indicate the standard (recurring) journal entries the contractor uses in recording the costs of the assigned liability. These costs will (CAS 408.50(c)):	
(1) include all entitlement that exists at the time the liability is determined.	
(2) be reduced for anticipated significant non-utilization.	
(3) be consistently estimated either in terms of current or anticipated wage.	
c. Verify that compensated personal leave costs are allocated pro-rata on an annual basis among final cost objectives of the period.	

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C-1 Compensated Personal Absence	WP Reference
3. If the contractor changed its compensated personal leave plan or adopted a new plan, compare the contractor's compensated personal leave liability under the new plan with the liability under the old plan at the first cost accounting period the new plan has become effective. If the liability under the new plan exceeds the liability under the old plan, verify that the contractor held the difference in a suspense account and did not charge it to Government contracts in the same accounting period (CAS 408.50(d)(2).	
4. Determine that the amount held in suspense is reduced, at the end of each cost accounting period, by the excess of the suspense amount at the beginning of the period over the liability at the end of the period. The excess shall be added to the cost of compensated personal absence assigned to the cost accounting period (CAS 408.50(d)(3)).	
5. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	



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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/or the FAO 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.</p> <p>The CFAO should be apprised of noncompliance matters at the earliest possible date.</p> <p><i>Note: If a noncompliance is considered less than material, but could become material if circumstances change, notify the contractor and contracting officer in writing, as appropriate (e.g., in a memorandum, via e-mail, or in the report appendix). The memorandum will include a Statement of Condition and Recommendation (SOCAR) and provide those charged with governance (the contractor and contracting officer) 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 less than material noncompliance will be reported in a separate Appendix to the report titled "Noncompliance that Warrants Attention of those Charged with Governance." Reference to the appendix for the less than material 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 system deficiency is detected during this audit, ensure that the findings have been fully developed to determine if a material weakness or system deficiency in compliance with DFARS 252.242-7006 Accounting System, DFARS 252.215-7002 Estimating System, or DFARS 252.242-7004 Material Management and Accounting System 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.	

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