

MASTER AUDIT PROGRAM

Activity Code 19409	Compliance Audit CAS 409
B-1 Planning Considerations	Version 8.3, dated Jun 2025

Type of Service - Attestation Examination Engagement
Audit Specific Independence Determination
<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>

Purpose and Scope
<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 409 establishes criteria for assigning costs of tangible capital assets to cost accounting periods and for allocating such costs in an objective and consistent manner. The standard does not apply where compensation for tangible capital asset usage is based on use allowances as provided in Office of Management and Budget Circular Nos. A-21, A-87, and A-122 or other appropriate acquisition regulations; nor does it cover non-wasting assets or natural resources, which are subject to depletion. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 409 criteria. Because of the interrelationship and to achieve efficiency, CAS 404 and CAS 409 should be audited concurrently.</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 409. The audit steps in the program should reflect a documented understanding between the auditor, the technical specialist, as applicable, 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.</p>

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Other Planning Considerations
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 409. Identify any changes in the CAS 409 standard since the last examination.	
b. Evaluate Parts IV and V of the contractor's Disclosure Statement items to become familiar with the disclosed accounting practices. Determine if the contractor's disclosed practices have changed since the last CAS 409 compliance audit. If changes have occurred, document the file and adjust the audit scope accordingly.	
c. Evaluate recent forward pricing or incurred cost proposals to determine whether the total depreciation expense is material. Consider contract mix (Government vs. commercial) when determining the materiality of costs subject to this standard. Materiality should be a consideration only in determining the extent of substantive testing.	
d. Examine 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.	
e. Review permanent file to determine if previous audits included findings and recommendations that relate to the subject matter. 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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B-1 Preliminary Steps	WP Reference
<p data-bbox="250 237 1235 415">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 data-bbox="285 432 1235 573">(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 data-bbox="285 594 1235 663">(2) If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul data-bbox="342 688 1235 1518" style="list-style-type: none"><li data-bbox="342 688 1235 856">▪ 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 data-bbox="342 867 1235 898">▪ Document the results of the determination in writing.<li data-bbox="342 909 1235 1003">▪ 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 data-bbox="342 1014 1235 1108">▪ 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 data-bbox="342 1119 1235 1213">▪ 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 data-bbox="342 1224 1235 1293">▪ If the review of the perm file or the contractor identifies relevant other audits or studies:<li data-bbox="342 1304 1235 1413">▪ 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 data-bbox="342 1434 1235 1518">▪ Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.	

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B-1 Preliminary Steps	WP Reference
<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"> Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.). Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings. <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>	
<p>h. Contact the contracting officer to ascertain any known concerns that will impact the audit and adjust the audit scope and procedures accordingly.</p>	
<p>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.</p>	
<p>2. Entrance Conference and Preparation</p>	
<p>a. Arrange and conduct an entrance conference covering the areas highlighted in CAM 4-302 with particular emphasis on obtaining an understanding of the contractor's depreciation process and its internal control structure. Request the contractor to explain the following:</p>	
<p>(1) Its depreciation process including disposition of assets and identify relevant written policies and procedures,</p>	
<p>(2) Any changes, or planned changes, to policies and procedures related to CAS 409 since the last DCAA examination,</p>	
<p>(3) Any corrective actions related to previously identified noncompliances, and if applicable, include a follow up with contractor management on:</p> <ul style="list-style-type: none"> corrective actions that address previous DCAA audit findings and recommendations, other studies or audits that impact the subject matter. 	
<p>(4) Fixed asset retirement report.</p>	

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B-1 Preliminary Steps	WP Reference
b. If reliance is to be placed on the work of others, the file should contain the required documentation (see 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. Determine high-risk areas by performing the following: (1) Determine the dollar amounts in the various accounts. (2) Perform comparative analysis of the identified accounts to determine if significant changes may have occurred. (3) Determine provisions of the standard that are material.	
c. 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
d. Fraud Risk Indicators Using the framework in WP B-09, discuss the fraud risk indicators with the audit team.	B-09
e. From the information gathered in the preceding steps, assess the audit risk and determine the scope of audit and extent of compliance testing to be performed.	
f. Update the information in the permanent files as needed.	

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C-1 Measurement of Depreciable Cost	WP Reference
Version 8.3, dated Jun 2025	
Determine that the depreciation cost of a tangible capital asset (or group of assets) is assigned to cost accounting periods in accordance with the following criteria:	
1. Verify that the contractor determines the depreciable cost of a tangible capital asset as its capitalized cost less its estimated residual value. Residual Value is the current forecast of the proceeds (less removal and disposal costs, if any) to be realized upon disposition of a tangible capital asset. It usually is measured by the net proceeds from the sale or other disposition of the asset, or its fair value if the asset is traded in on another asset (CAS 409.40(a)(1)).	
2. Verify the acquisition cost by examining the supporting detailed asset ledger or other supporting documentation, such as purchase orders, vendor invoices, or canceled checks. Capitalized cost should be the acquisition cost of the asset, adjusted for additions and retirements. Note: The capitalized cost should include inspection, testing, installation, etc., if material.	
3. Verify that the contractor's estimated residual values are determined for all tangible capital assets (or group of assets). For tangible personal property, only estimated residual values, which exceed <u>ten</u> percent of the capitalized cost of the asset (or group of assets) need be used in establishing depreciable costs. Also, residual value need not be considered in determining depreciable costs if the declining balance method of depreciation or the class life asset depreciation range method is used. (CAS 409.50(h))	
4. Verify for newly acquired tangible assets that the contractor did not begin to charge depreciation until the assets were ready for use. (CAS 409.50(b)).	
5. Verify that the contractor does not charge depreciation cost which would significantly reduce the book value of an asset or group of assets below residual value (CAS 409.50(h)).	
6. If the contractor changed the estimated service life, residual value or method of depreciation during the life of a tangible capital asset, determine if the contractor limited the remaining depreciable cost for cost accounting purposes to the undepreciated cost of the assets and assigned this cost only to the cost accounting period in which the change is made and subsequent periods. (CAS 409.50(i))	
7. Verify that the contractor is consistently following its policy in determining the depreciable cost to be assigned to the beginning and ending periods of asset use (CAS 409.50(c)). The auditor should compare the treatment of newly acquired and disposed of tangible capital assets' depreciation for the current period to the contractor's prior year's policy.	
8. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	

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D-1 Estimated Service Lives	WP Reference
Version 8.3, dated Jun 2025	
1. Verify that the estimated service life of a tangible capital asset (or group of assets) was used to determine the cost accounting periods to which the depreciable cost will be assigned (CAS 409.40(a)(2)).	
2. Verify that the contractor estimated its tangible capital assets' service lives by determining a reasonable approximation of their expected actual periods of usefulness. The contractor's determination should consider the following physical and economic factors (CAS 409.50(a)):	
a. Quantity and quality of expected output and the timing thereof,	
b. Costs of repair and maintenance and the timing thereof,	
c. Standby or incidental use and the timing thereof, and	
d. Technical or economic obsolescence of the asset (or group of assets) or of the product or service it is involved in producing.	
e. The estimate of the expected actual period of usefulness need not include the additional period tangible capital assets are retained for standby or incidental use when adequate records are maintained which reflect the withdrawal from active use (CAS 409.50(e)).	
f. Actual periods of usefulness shall be those periods which are supported by adequate records of past usage for a sample of like assets used in similar circumstances appropriately modified for specifically identifiable factors expected to influence future lives (CAS 409.50(e)(1)).	
3. Verify that the contractor's basis used for estimating service lives is predicated on supporting records of experienced lives and consistently used (CAS 409.50(e)(2)).	
4. Verify that the contractor developed the assets' estimated useful lives from history developed from current and historical fixed asset records. Note: Such records must be available <u>2 years</u> after the Standard is to be followed. Estimated service lives for financial accounting purposes, if not unreasonable, shall be used until adequate supporting records are available (CAS 409.50(e)(3)).	

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D-1 Estimated Service Lives	WP Reference
<p>5. If the contractor has no available data, determine if the estimated service lives for tangible capital assets are established based on a projection of the actual period of usefulness, but which are not less than asset guideline periods (mid-range) established for asset guideline classes under the Internal Revenue procedures in effect the year the asset is acquired. For property placed in service after 1986, IRS Revenue Procedure 87-56, as modified by Revenue Procedure 88-22, does not provide a depreciation range for asset guideline classes, it provides the applicable class lives and specific recovery periods. The recovery period used will depend on the depreciation system (GDS or ADS) selected. The depreciation method (e.g., declining balance or straight line) selected by the contractor will determine the depreciation system used and the resulting recovery period. Information in IRS Revenue Procedure 87-56, as modified by Revenue Procedure 88-22, is available in IRS Publication 946, How to Depreciate Property, which is available at irs.gov. IRS Publication 946 will identify the depreciation method(s) that may be used for each depreciation system. The use of these IRS documents should be used only until the contractor is able to develop estimates which are appropriately supported by its own experience. (CAS 409.50(e)(4)).</p>	
<p>6. Determine that the estimated service life and method of depreciation used for an original complement of low-cost equipment is based on the expected consumption of services over the expected useful life of the complement as a whole and is not based on the individual items which form the complement (CAS 409.50(g)).</p>	
<p>7. Determine if depreciable spare parts which are required for the operation of tangible capital assets are accounted for over the service lives of such assets (CAS 409.50(b)).</p>	
<p>8. 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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E-1 Method of Depreciation	WP Reference
Version 8.3, dated Jun 2025	
Determine that the method of depreciation selected reflects the pattern of consumption of services over the life of the asset (CAS 409.40(a)(3)).	
1. The appropriate method of depreciation should be selected as follows:	
a. An accelerated method of depreciation is appropriate where the expected consumption of asset services is significantly greater in early years of asset life (CAS 409.50(f)(3)(i)).	
b. The straight-line method of depreciation is appropriate where the expected consumption of asset services is reasonably level over the service life of the asset (or group of assets) (CAS 409.50(f)(3)(ii)).	
2. The method of depreciation used for financial accounting purposes shall be used for contract costing unless (CAS 409.50(f)(1)):	
a. Such method does not reasonably reflect the expected consumption of services for the tangible capital asset to which applied, or	
b. The method is unacceptable for Federal Income Tax purposes.	
3. After the date of initial applicability of this Standard, selection of methods of depreciation for newly acquired assets which are different from the methods currently being used for like assets in similar circumstances shall be supported by projections of the expected consumption of services of those assets to which the different methods of depreciation shall apply (CAS 409.50(f)(2)).	
4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	

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F-1 Accounting for Gains and Losses	WP Reference
Version 8.3, dated Jun 2025	
The auditor should verify that the contractor has:	
1. Accounted for gains and losses recognized upon disposition of tangible capital assets in the cost accounting period in which the disposition occurs (CAS 409.40(a)(4));	
2. Allocated those gains and losses in the same manner as depreciation of the asset has been allocated (CAS 409.40(b)(4); and	
3. Determined the gains and losses in accordance with the following criteria:	
a. The gain or loss for each asset disposed of is the difference between the net amount realized, including insurance proceeds in the event of involuntary conversion, and its undepreciated balance. However, the gain to be recognized for contract costing purposes shall be limited to the difference between the original acquisition cost of the asset and its undepreciated balance (CAS 409.50(j)(1)).	
b. Gains and losses on the disposition of tangible capital assets shall not be recognized where (CAS 409.50(j)(2)):	
(1) Assets are grouped and such gains and losses are processed through the accumulated depreciation account or,	
(2) The asset is given in exchange as part of the purchase price of a similar asset and the gain or loss is included in computing the depreciable cost of the new asset.	
c. Where the disposition results from an involuntary conversion and the asset is replaced by a similar asset, gains and losses may either (CAS 409.50(j)(2)):	
(1) Be recognized in the period of disposition, or	
(2) Be used to adjust the depreciable cost base of the new asset.	
d. The contracting parties may account for gains and losses arising from mass or extraordinary dispositions in a manner which will result in treatment equitable to all parties (CAS 409.50(j)(3)).	
e. Gains and losses on disposition of tangible capital assets transferred in other than an arms-length transaction and subsequently disposed of within 12 months from the date of transfer shall be assigned to the transferor (CAS 409.50(j)(4)).	
f. Gains and losses are not recognized in business combinations taking place after the applicability date of the April 15, 1996 revision to CAS 409 if the assets generated either depreciation expense or cost of money charges during the most recent cost accounting period prior to a business combination.	

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F-1 Accounting for Gains and Losses	WP Reference
4. Determine and document the reliability of the information the audit team will use to reach their conclusions in this section.	

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G-1 Allocation of Depreciation Cost	WP Reference
Version 8.3, dated Jun 2025	
The auditor should verify that the annual depreciation cost allocation, including the allocation of gains and losses, is allocated to cost objectives on a beneficial or causal relationship in accordance with the following criteria (CAS 409.40(b)):	
1. Depreciation cost may be charged directly to cost objectives only if such charges are made on the basis of usage and only if depreciation costs of all like assets used for similar purposes are charged in the same manner.	
2. Where tangible capital assets are part of, or function as, an organizational unit whose costs are charged to other cost objectives based on measurement of the services provided by the organizational unit, the depreciation cost of such assets shall be included as part of the cost of the organizational unit.	
3. Depreciation costs, which are not allocated in accordance with steps 1 and 2 above shall be included in appropriate indirect cost pools.	
4. The gain or loss which is recognized upon disposition of a tangible asset, where material in amount, shall be allocated in the same manner as the depreciation cost of the asset has been or would have been allocated for the cost accounting period in which the disposition occurs. Where such gain or loss is not material, the amount may be included in an appropriate indirect cost pool.	
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
Version 8.3, dated Jun 2025	
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 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 written notification 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 certain area(s) of the contractor's accounting practices, modify the subject matter stated in the Report On (from WP A01) 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.	
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.	

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A-1 Concluding Steps	WP Reference
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 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.	