

## MASTER AUDIT PROGRAM

<b>Activity Code 19200</b>	<b>CAS Noncompliance Report Assignment</b>
<b>B-1 Planning Considerations</b>	<b>Version 6.0, dated May 2024</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 assignment 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 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></p>

<b>Purpose and Scope</b>
<p>This assignment is an integral part of the originating assignment and is only used to <b>report</b> 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) and must be reported to the CFAO in writing. The audit program steps in <b>B-01, Evaluation of the Noncompliance</b> include evaluating the CAS noncompliance, determining the significance and materiality, incorporating sufficient evidence, drafting the Statement of Condition and Recommendation (SOCAR), and soliciting the contractor's reaction. The audit program steps in <b>C-01, Evaluation of Contractor's Reaction</b> include evaluating the contractor's reaction and determining if it changed the team's assessment of the existence or significance of the CAS noncompliance.</p> <p>The CAS noncompliance should be either:</p> <ul style="list-style-type: none"> <li>• fully developed (condition and recommendation) and sufficiently supported in the originating assignment; or</li> <li>• 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.</li> </ul> <p>Before performing any additional effort to report the CAS noncompliance, the auditor should ensure the contractor is subject to CAS (performing fully CAS-covered or modified CAS-covered contracts/subcontracts). If CAS is not applicable to the contractor, the 19200 audit should be cancelled.</p> <p>Completing this assignment entails:</p> <ul style="list-style-type: none"> <li>• reviewing the originating assignment to understand the CAS noncompliance;</li> <li>• incorporating sufficient and appropriate evidence to support the report findings and conclusions;</li> <li>• preparing the Statement of Condition and Recommendation (SOCAR);</li> <li>• evaluating the contractor's reaction; and</li> </ul>

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<b>Purpose and Scope</b>
<ul style="list-style-type: none"> <li>issuing the CAS noncompliance report or memorandum.</li> </ul>
<p>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))</p>

<b>References</b>
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>CAS Definitions:</b>
(1) “ <i>Allocation of cost to cost objectives</i> , ...includes both direct and indirect allocation of costs. Examples of cost accounting practices involving allocation of cost to cost objectives are the accounting methods or techniques used to accumulate cost, to determine whether a cost is to be directly or indirectly allocated to determine the composition of cost pools, and to determine the selection and composition or the appropriate allocation base.”
(2) “ <i>Assignment of costs to cost accounting periods</i> , ...refers to a method or technique used in determining the amount of cost to be assigned to individual cost accounting periods. Examples of cost accounting practices which involve the assignment of cost to cost accounting periods are requirements for the use of specified accrual basis of accounting or cash basis accounting for a cost element.”
(3) “ <i>Change in cost accounting practice</i> , ...means any alteration in a cost accounting practice, as defined in 9903.302-1, whether or not such practices are covered by a Disclosure Statement.”
(4) “ <i>Cost accounting practice</i> , . . . means any disclosed or established accounting method or technique which is used for allocation of cost to cost objectives, assignment of cost to cost accounting periods, or measurement of costs.”
(6) “ <i>Measurement of costs</i> , ... encompasses accounting methods and techniques used in defining the components of cost, determining the basis for cost measurement, and establishing criteria for use of alternative cost measurement techniques.”

<b>B-1 Evaluation of CAS Noncompliance</b>	<b>WP Reference</b>
<b>Version 6.0, dated May 2024</b>	

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B-1 Evaluation of CAS Noncompliance	WP Reference
<p><b>Note:</b> <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, determine the significance and materiality, draft the SOCAR condition and recommendation, and solicit the contractor's reaction. (CAM 8-302.7 and Chapter 10)</i></p>	
<p>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)</p> <p><b>Note:</b> <i>When considering the effect, auditors should use the framework for reporting a CAS noncompliance in CAM 8-302.7. To give the reader a basis for judging the prevalence and consequences of the findings, auditors should, as appropriate, quantifying the results in terms of dollar value or other measures whenever possible.</i></p>	
<p>2. If the CAS noncompliance 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. (CAM 10-211.2c)</p>	
<p>3. In addition to the four Condition elements, ensure the SOCAR contains (and the working papers sufficiently document) the following:</p>	
<p>a. The type of CAS noncompliance (CAM 8-302.2 accumulating/estimating/disclosed practices).</p>	
<p>b. The actual or estimated time the noncompliance has existed. Also, if the contractor implemented corrective actions to correct the noncompliance, does the CFAO consider the action sufficient to reduce the future potential impact to the Government?</p>	
<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>4. Coordinate with other cognizant DCAA offices, as needed, to determine if the office is aware of the noncompliance, if the noncompliance impacts other business units, and if the offices are reporting/treating the noncompliance consistently. (Consider the organizational structure, allocations among business units, shared disclosure statement practices, etc.)</p>	

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<b>B-1 Evaluation of CAS Noncompliance</b>	<b>WP Reference</b>
5. Document the auditor’s discussion with the CFAO regarding the CAS noncompliance and issue a notification letter in accordance with CAM 4-104 and 8-302.4. Modify the notification letter based on the scope of the assignment (i.e. to report the noncompliance identified under the originating assignment).	
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).	
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.)	
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)	

<b>C-1 Evaluation of Contractor’s Reaction</b>	<b>WP Reference</b>
<b>Version 6.0, dated May 2024</b>	
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.	
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. <ul style="list-style-type: none"> <li>a. 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.</li> <li>b. 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.</li> </ul>	
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 rational and calculations. The auditor’s response section of the	

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<b>C-1 Evaluation of Contractor's Reaction</b>	<b>WP Reference</b>
SOCAR should provide enough detail on the GDM for the ACO to fully understand the basis for the calculations.	
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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A-1 Concluding Steps	WP Reference
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<p>1. Prepare the draft CAS noncompliance report or memorandum, if applicable. The report should include 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> <ol style="list-style-type: none"> <li>a. Issue a noncompliance report for all violations of major requirements of CAS regardless of their effect on contract costs.</li> <li>b. Issue a noncompliance report for all significant/material noncompliances.</li> <li>c. Issue a noncompliance report for a noncompliance that is an inherent part of the contractor’s cost accounting system and that is of such a nature that the cost impact on CAS-covered contracts would be difficult or impossible to determine.</li> <li>d. 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.</li> <li>e. Issue a memorandum to notify the CFAO, in writing, when a CAS noncompliance is currently considered immaterial, but which could become material if circumstances change. 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.</li> </ol> <p><b>Note:</b> <i>a CAS noncompliance report/memorandum will not be issued when the auditor determines the noncompliance does not violate major requirements of CAS, will never result in a significant adjustment, and does not warrant the attention of the CFAO.</i></p>	
<p>2. Upon the completion of the assignment, brief the CFAO 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 by incorporating the auditor’s response, if applicable, and exit conference details.</p>	

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<b>A-1 Concluding Steps</b>	<b>WP Reference</b>
5. Complete the administrative working papers.	
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 titled, <i>“Tracking of Issued CAS Noncompliance Reports”</i> (Activity Code 19100, 19200, 194xx) is included in the permanent file after the assignment has been closed in DMIS. Maintaining a list of CAS noncompliance reports in the permanent file will be useful in planning future audits.	
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 FAO’s future audits.	