

MASTER AUDIT PROGRAM

Activity Code 19415	Compliance Audit CAS 415 – Deferred Compensation
Version 7.0 dated July 2020	
B-1	Planning Considerations
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	
<ol style="list-style-type: none"> 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 415 establishes criteria for the measurement of the cost of deferred compensation and the assignment of such cost to cost accounting periods. This standard is applicable to the cost of all deferred compensation except for compensated personal absence and pension plan costs which are covered in other cost accounting standards. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 415 criteria (48 CFR 9904.415). FAR 31.205-6(k) makes CAS 415 applicable to all contracts subject to the FAR Part 31 cost principles, even contracts which are not CAS-covered or subject only to modified coverage. 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. The auditor and the technical specialist and/or the supervisory auditor should agree upon the level of transaction testing in setting the scope of the audit. This understanding should be documented in the working papers. 3. This program is intended to provide for the proper planning, performance, and reporting on the contractor's compliance with CAS 415. 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. 	
Other Planning Considerations	

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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. Determine if the contractor has deferred compensation claimed or proposed and its impact on Government contracts. Also, consider whether the contractor's costs are categorized properly as pension costs (subject to CAS 412/413) versus deferred compensation costs (subject to CAS 415). For a plan to be a pension plan, the official plan documents must offer the plan participants: (i) benefit payments for life or (ii) benefits that are payable for life at the option of the participants. All Employee Stock Ownership Plans (ESOPs) are subject to CAS 415, regardless of whether the plan meets the definition of a pension plan (CAS 415.20(b)(2) and CAS 412.20(b)).
4. Once it is determined CAS 415 is applicable, the auditor should assess which provisions of the standard are significant to the contractor, assess control risk, and the results of relevant other audits (e.g., results of prior compliance audits, Disclosure Statement revisions, etc.).
5. Determine if the contractor or its corporate/home office controls the deferred compensation costs (i.e., controls the measurement and assignment of costs to cost accounting periods). If the contractor's recorded costs represent an allocation of costs from the corporate and/or home office, determine if an assist audit is needed. Do not issue a CAS compliance audit report at the segment level for costs that are controlled by the segment's corporate/home office.
6. The decision not to test whether the contractor is complying with specific provisions of the standard should be documented.
7. Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.

B-1	Preliminary Steps	WP Reference
Version 7.0 dated July 2020		
1.	Research and Planning	
a.	Read and become familiar with the criteria in CAS 415. Identify any changes in the CAS 415 standard since the last examination.	
b.	Determine if the contractor has any deferred compensation. Ascertain if the contractor completed Part VII of its disclosure statement. Evaluate the contractor's incurred cost submissions, forward pricing proposals, and/or financial statements to determine if deferred compensation is included.	

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<p>c. Evaluate Part VII of the contractor's Disclosure Statement and related policies and procedures to become familiar with the disclosed accounting practices.</p>	
<p>d. Determine if the contractor's accounting system has remained unchanged since the last CAS 415 compliance audit. If changes have occurred, adjust audit scope accordingly.</p>	
<p>e. Evaluate recent forward pricing or incurred cost proposals to determine whether total costs subject to CAS 415 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>f. 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>g. 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"> (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. (2) Document the results of the inquiry and the impact of the corrective actions to the subject matter 	
<p>h. 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> <ol style="list-style-type: none"> (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. (2) If the review of the perm file or the contractor identifies relevant internal audits: 	

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<ul style="list-style-type: none"> • 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. • Document the results of the determination in writing. • 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. • 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. • 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. <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>i. If appropriate, coordinate with the FAO technical specialist, CAD, and/or regional specialist on matters of interpretation and policy.</p>	
<p>j. Contact the contracting officer to ascertain any known concerns that will impact the audit and adjust the audit scope and procedures accordingly.</p>	
<p>k. 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:</p>	

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(1) Requesting the contractor’s explanation of the internal control structure.	
(2) Identifying any changes made since the last audit and any changes planned.	
(3) Obtaining an understanding of the contractor's monitoring process.	
(4) Obtaining copies of all plan documents. Ensure we have copies of the most recent documents.	
(5) Identifying any weaknesses which may have been reported and related follow-up actions. Request copies of any internal or external audit reports regarding costs of deferred compensation. If applicable, include a follow up with contractor management on: <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 	
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. Using the framework and the guidelines in WP B-2, 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.	
b. Determine the following:	
(1) The amounts and types of deferred compensation awards claimed and/or currently provided to employees. Include open unaudited contractor fiscal years, current fiscal year, and, if available, budgeted years in this analysis. Suggested sources include incurred cost submissions, forward pricing proposals, or financial statements. Obtain contractor’s budget for future years.	
(2) The Government participation by type of contract.	
(3) Significant cost accounts.	
(4) Significant provisions of the standard.	
(5) The extent of transaction testing should be commensurate with audit risk. If specific provisions of the standard are not applicable or are immaterial, curtail the audit scope for them and document the decision.	
(6) Determine whether the contractor properly categorized its deferred compensation and pension plans. For a plan to be a pension plan,	

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<p>the official plan documents must offer the plan participants benefit payments payable for life or benefits that are payable for life at the option of the participants.</p>	
<p>c. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <ol style="list-style-type: none"> (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) (2) 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) (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><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>	
<p>d. 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"> • relevant prior audit experience (e.g., questioned cost, relevant reported accounting system deficiencies), • relevant aspects of the contractor and its environment, • 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: Fraud Detection Resources for Auditors. Copy link and paste into web browser, • other known risk factors identified that could materially affect the subject matter, and • the audit team's understanding of relevant key internal controls. 	

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<p>Document the factors identified 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.</p> <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>	
e. 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.	
f. Update the information in the permanent files as needed.	

C-1	Basic Requirements	WP Reference
Version 7.0 dated July 2020		
1.	For the plan(s) selected for examination, ensure that the plan documents on hand are the most recent available. Confirm that the items covered in WP D-1, E-1, and F-1 are detailed in the plan document.	
2.	To properly assign costs to the appropriate period, the facts and circumstances of the award must be known. Ascertain the facts and circumstances of the award. Determine if deferred compensation is assigned to the cost accounting period in which the contractor incurs the obligation. (CAS 415.50(a)). An obligation exists when all of the following conditions are met:	
	a. there is a requirement to make future payment(s) which the contractor cannot unilaterally avoid;	
	b. the award is to be satisfied by a future payment of money, other assets, etc.;	
	c. the amount of the future payment can be measured with reasonable accuracy;	
	d. the recipient is known;	
	e. the terms of the award require certain events to occur before an employee is entitled to receive the benefits, and there is a reasonable probability that such events will occur (e.g., awards are made if certain production levels are met and these production levels historically are reached approximately 80 percent of the time);	
	f. for stock options, there is a reasonable probability that options ultimately will be exercised.	
3.	Verify through examination of the award provisions that all applicable conditions for establishing the obligation for compensation have been met	

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for those awards in which the entire cost is recognized in the year of award.	
4. If no obligation is incurred prior to payment, verify that the deferred compensation cost is recorded only when paid.	
5. Determine that the cost of each award is considered separately for purposes of measuring and assigning costs to cost accounting periods. If the cost of deferred compensation can be measured with reasonable accuracy on a group basis, separate computations for each employee are not required (CAS 415.50(c)).	

D-1	Compensation Paid In Money (Other than ESOPs)	WP Reference
Version 7.0 dated July 2020		
1.	Determine whether the deferred compensation paid in money is computed in accordance with a, b, or c below. Evaluate each deferred compensation plan to determine whether the payment of interest is required. For each plan that provides for interest, check the contractor’s annual interest cost calculation to ascertain that only interest costs for which the rates are fixed or based on specific indices have been accrued.	
a.	If the award provides that the amount to be paid shall include the principal of the award plus interest at a rate fixed at the date of award, such interest shall be included in the computation of the amount of future benefit (CAS 415.50(d)(1)).	
b.	If the award provides for payment of principal plus interest at a rate not fixed at the time of award but based on a specified index determinable in each period, such interest shall be included in the computation of the amount of future benefit. The interest rate used shall be the rate in effect at the close of the period in which the cost is assignable. Adjustments to cost shall be made in any period where actual rates vary substantially from the rate used in the calculation (CAS 415.50(d)(2)).	
c.	If the award provides for payment of principal plus interest at a rate not based on a specified index or not determinable each year:	
	(1) The cost for the principal of the award shall be the present value of the future benefits and shall be assigned to the period in which the employer incurs an obligation (CAS 415.50(d)(3)(i)).	
	(2) The interest on such awards shall be assigned to the period in which payment is made (CAS 415.50(d)(3)(ii)).	
2.	Determine that awards based on future services are assigned to the periods of current and future service based on the facts and circumstances of the award. The cost for each period shall be the present value of future benefits calculated as of the end of each period (CAS 415.50(d)(4)).	

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3. Determine that the present value is based on the discount rate established by the Secretary of the Treasury (CAS 415.50(d)(5)).	
4. Where the award is made under a plan which requires irrevocable funding (including interest) of future payments to employees, the amount assigned to the period of the award is the amount irrevocably funded into the trust (CAS 415.50(d)(6)). Evaluate the deferred compensation plans and trust provisions to determine if irrevocable funding is required. If so, verify that the amount irrevocably funded is assigned to the cost accounting period in which the funding occurs.	
5. For small closely held contractors, if the amount is not funded, the requirements of FAR 31.205-6(b)(2)(i) and (iv) apply. Compensation is allowable to the extent it is reasonable for the personal services rendered and does not constitute a distribution of profits. During incurred cost and/or forward pricing proposal audits, auditors should verify that compensation is not recognized in amounts exceeding those costs that are deductible as compensation under the Internal Revenue Code and regulations under it. If this step has not been performed in other audits, consider expanding the scope of the audit to include this.	
6. Any forfeiture which reduces the employer's obligation for payment of deferred compensation shall be a reduction of contract costs in the period in which the forfeiture occurs. Evaluate the contractor's policies and procedures regarding reductions for forfeitures. Request the contractor to provide documentation of its reviews/calculations of reductions for forfeitures (CAS 415.50(d)(7)).	
7. Verify that the reduction was the amount of the award that was assigned to a prior period, plus interest compounded annually, using the same Treasury rate at the time the cost was assigned. For irrevocably funded plans, verify that the reduction is the amount initially funded plus or minus a pro-rata share of the gains and losses of the fund (CAS 415.50(d)(7)).	
8. For group plans, evaluate estimated forfeitures, based on the contractor's past experience and its future expectations. Verify the reasonableness of estimated forfeitures. If the cost of deferred compensation for group plans is determined to be greater than the amounts initially assigned because the forfeiture was overestimated, verify that the additional cost attributable to the incorrect estimate is assigned to the period when the revised costs becomes known. (CAS 415.50(d)(8)).	

E-1	Compensation Paid in Other Than Money (Other than ESOPs)	WP Reference
Version 7.0 dated July 2020		
1.	Obtain the contractor's support for the amounts recorded for compensation paid in other than money.	

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<p>2. For awards made in stock of the contractor, the cost of deferred compensation for such awards shall be based on the market value of the stock on the measurement date (CAS 415.50(e)(1)).</p>	
<p>a. The measurement date is the date the number of shares awarded becomes known.</p>	
<p>b. The market value is indicated:</p>	
<p>(1) By market quotations for stock publicly traded in substantial quantities.</p>	
<p>(2) Independent appraisal evaluations for stock not publicly traded in substantial quantities (e.g., closely held corporations). Determine if the data used in making the valuation is current, accurate, and complete and if the assumptions underlying the valuation are reasonable. (For ESOPs stock evaluation, see Chapter 23 of the Selected Areas of Cost Guidebook.)</p>	
<p>3. As part of incurred cost and/or forward pricing audits, auditors should verify that unallowable plan costs are not included. Refer to FAR 31.205-6(i) for descriptions of unallowable deferred compensation costs. If this has not been performed in other audits, consider expanding the scope of this audit to evaluate for compliance with FAR Part 31.205-6(i).</p>	
<p>4. For awards made in the form of options to employees to purchase stock of the contractor, verify that the cost of deferred compensation of such award is the amount by which the market value of the stock (as indicated by market quotations) exceeds the option price multiplied by the number of shares awarded on the measurement date. If the option price on the measurement date is equal to or greater than the market value of the stock, no cost shall be deemed to have been incurred for contract costing purposes (CAS 415.50(e)(2)). Verify that no costs were recorded in this circumstance.</p>	
<p>5. Evaluate the terms of an award of stock or stock options to determine if the employee is required to perform future service in order to receive the stock or to exercise the option. If so, verify that the cost of the deferred compensation is appropriately assigned to the periods of current and future service based on the facts and circumstances of the award. Verify that the cost to be assigned is the value of the stock or stock option at the measurement date. (CAS 415.50(e)(3)).</p>	
<p>6. For an award made in the form of an asset other than cash, verify that the cost of deferred compensation for such award is based on the market value of the asset at the time the award is made. If a market value is not available, verify that the fair value of the asset is used. (CAS 415.50(e)(4)). Verify that the claimed market value of the asset is supported by a valid appraisal obtained from an outside source.</p>	

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<p>7. If the terms of an award are made in the form of an asset other than cash or require that the employee perform future service in order to receive the asset, verify that the cost of the deferred compensation is appropriately assigned to the periods of current and future service based on the facts and circumstances of the award. (CAS 415.50(e)(5)). Determine the facts and circumstances of the award. Determine the basis on which the contractor prorates costs between current and future periods. If the plans do not clearly establish a basis for prorating costs between accounting periods, require the contractor to support the proration. Evaluate the contractor’s support for reasonableness.</p>	
<p>8. Determine if the contractor has properly considered forfeitures. Evaluate the contractor’s policies and procedures regarding forfeitures. Obtain the contractor’s support for recorded/estimated forfeitures or its support for not recording forfeitures. In computing the assignable cost for a period, any forfeitures which reduce the employer's obligations for payment of deferred compensation shall be a reduction of contract costs in the period in which the forfeiture occurred. The amount of the reduction shall be equal to the amount of the award that was assigned to a prior period, plus interest compounded annually, using the Treasury rate that was in effect at the time the cost was assigned. If the recipient of the award of stock options voluntarily fails to exercise such options, such failure shall not constitute forfeiture under provisions of the standard (CAS 415.50(e)(6)).</p>	
<p>9. Ascertain if the contractor’s award is a noncompensatory award. Noncompensatory stock option awards or other forms of stock purchase plans meeting specified characteristics in CAS 415.50(e)(7) are not covered by the standard, i.e.,:</p>	
<p>a. Substantially all full-time employees meeting limited employment qualifications may participate.</p>	
<p>b. Stock is offered to eligible employees equally or based on a uniform percentage of salary or wages.</p>	
<p>c. An option or a purchase right must be exercised within a reasonable period.</p>	
<p>d. The discount from the market price of the stock is no greater than would be reasonable in an offer of stock to stockholders or others.</p>	

F-1	Employee Stock Ownership Plans (ESOPs)	WP Reference
Version 7.0 dated July 2020		
1.	Determine if the contractor’s cost is measured by the contractor’s contribution, including interest and dividends if applicable, to the ESOT (CAS 415.50(f)(1)).	

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<p>a. Determine if the contractor's cash contributions are measured consistent with the applicable requirement below:</p>	
<p>(1) Under a non-leveraged ESOP, the contractor contributes cash to the Employee Stock Ownership Trust – ESOT (entity responsible for administering the ESOP) which purchases company stock with the cash and distributes the stock to the participating employees' accounts. Verify the claimed cost represents the contractor's cash contribution to the ESOT.</p>	
<p>(2) Under a leveraged ESOP, the ESOT borrows money from a bank and uses these funds to purchase company stock (refer to Chapter 23 of the Selected Areas of Cost Guidebook for additional information). Verify the contractor's claimed cost represents its contribution to the ESOT equal to the total amount of the principal and interest on the loan.</p>	
<p>(3) Verify that the contractor accounts for the interest and principal portions of the ESOP financing as two separate components in the accounting records and determine that the amounts are reasonable and consistent with the loan agreement.</p>	
<p>b. Verify contributions made in the form of stock of the corporation or property was measured based on the market value, or fair value if the market is not available (CAS 415.50(f)(1)). Definitions of market value and fair value are provided at CAS 415.30(b)(1) and a(3), respectively.</p>	
<p>2. Determine if the cost of ESOPs is assigned to the cost accounting period in which the contractor incurs an obligation to compensate the employee (CAS 415.50(f)(2)):</p>	
<p>a. Verify the contractor's contribution is assigned to a cost accounting period only to the extent that the contribution, whether in cash or stock or any combination thereof, is awarded to employees and allocated to individual employee's accounts by the Federal tax deadline, including permissible extensions.</p>	
<p>b. Verify that stock or cash that is allocated to the individual employees' accounts between the end of the cost accounting period and the tax filing date for that period is assigned to the accounting period in which the employee is awarded the stock or cash.</p>	
<p>3. Assess the reasonableness and allowability of contractor ESOP contributions using the requirements of FAR 31.205-6. Refer to Chapter 23 of the Selected Areas of Cost Guidebook for additional details.</p>	
<p>a. Review the terms of the ESOP to determine if the plan provides unreasonable compensation to certain employees or groups of employees (FAR 31.205-6(a) and (b)).</p>	

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b. Determine if the contractor's contribution includes any dividend payments or an amount calculated based on dividend payments. Such amounts are unallowable (FAR 31.205-6(i)).	
c. Confirm the annual ESOP contributions do not exceed the Internal Revenue Service Code deductibility limits. Amounts in excess are unallowable (FAR 31.205-6(q)(2)(iii)).	
d. When the contribution is in the form of cash, evaluate the price paid by the ESOT for stock. Any price paid in excess of fair value is unallowable. If the ESOT purchases the stock with borrowed funds, the contractor's cash contributions necessary to cover the ESOT loan (principal and interest) that are attributable to the excess price should be questioned pro rata during the loan repayment period (FAR 31.205-6q(2)(v)).	
e. When the contribution is in the form of stock, verify that the value of the contribution is limited to the fair market value of the stock on the dates that title is effectively transferred to the trust (FAR 31.205-6(q)(2)(iv)).	

A-1	Concluding Steps	WP Reference
Version 7.0 dated July 2020		
1.	Summarize and document the results of audit.	
2.	<p>Discuss the audit results with the supervisor and, if applicable the technical specialist. The auditor should only report those noncompliances which are considered material (see CAM 8-302.7). 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>	

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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.	
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.	