



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
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IN REPLY REFER TO

PAC 730.3.B.01/2014-06

June 26, 2014  
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**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA**

**SUBJECT: Audit Guidance on Changes to Cost Accounting Standard Related Audits**

**What are the changes?**

- We no longer will evaluate adequacy as part of the scope of any Disclosure Statement audit (Activity Code 19100). Instead, audit teams will review the submission for adequacy prior to accepting the engagement. The objective of a Disclosure Statement audit will be solely to determine whether the disclosed practices comply with Cost Accounting Standards (CAS).
- CAS audit reports (Activity Codes 19100 and 194XX) now will describe the CAS noncompliances found in these assignments. Therefore, we no longer will issue a separate noncompliance report using the 19200 activity code for these assignments.

We will provide training to Field Audit Office (FAO) Assistants for Quality and CAS Technical Specialists so that they can help the FAOs implement the guidance through Link Meetings.

**When are the changes effective?**

The changes are effective as of the date of this memorandum. The audit team should contact the Regional Special Programs office for assistance with in-process assignments discussed below. Regions can contact Policy Accounting and Cost Principles (PAC) Division for assistance.

**What does an adequacy review involve?**

As part of determining whether to accept the engagement, the audit team will review whether the contractor's submission is adequate by:

- determining whether the contractor followed the Disclosure Statement form instructions (see Conformity of Disclosure Statement with General Instructions tool);
- determining whether contractor disclosures are consistent (see Internal Consistency of Disclosed Practices in a Disclosure Statement tool); and
- gaining a thorough understanding of the basis of the described practices, usually during the contractor's walk through of the submission.

Based on this information, the audit team will determine if the disclosed practices, as described, are:

SUBJECT: Audit Guidance on Changes to Cost Accounting Standard Related Audits

- current (e.g., disclosed practices are consistent with the contractor's intended practice described during the walk through),
- accurate (e.g. disclosed practices are consistent with the policies and procedures provided during the walk through), and
- complete (e.g., contractor completed all items on the form in accordance with the instructions).

If the Disclosure Statement is current, accurate, and complete, the submission is acceptable to perform an audit of the disclosed practices for compliance with CAS.

### **How does the new process impact an audit of an initial Disclosure Statement?**

The FAO will set up one assignment to audit disclosed practices for compliance with CAS. Before accepting the engagement, the audit team will review the Disclosure Statement for adequacy and discuss its assessment with the CFAO. Afterwards, the audit team will issue a memorandum to the CFAO summarizing the discussion and the final assessment.

If the CFAO affirms the Disclosure Statement will be determined adequate, the audit team will begin the audit of the disclosed practices for compliance with CAS. This does not mean that the audit should not be started until a CFAO determination letter is issued. However, the letter does need to be obtained prior to issuance of the final report.

If the CFAO determines the Disclosure Statement to be inadequate and the contractor revises its submission, the audit team will reassess the contractor's revised submission for adequacy. Once the Disclosure Statement is adequate, the audit team will begin the audit of the disclosed practices for compliance with CAS.

### **How does the new process impact an audit of revised practices in a Disclosure Statement amendment?**

Similar to audits of initial Disclosure Statements, the FAO will set up one assignment to audit the requested practices for compliance with CAS. Before accepting the engagement, the audit team will document the adequacy of the requested practices. The post walk-through meeting with the CFAO to discuss the risk and significance of the revised practices should have resulted in a determination of the significant practices we will audit, and provide the CFAO with enough information to resolve inadequacies before requesting the audit. We will not issue a separate adequacy notification memorandum as adequacy is implied upon acceptance of the engagement.

### **How are in-process audits handled?**

For in-process audits, the audit team will revise and/or remove the working papers to align them with the new audit programs. New audit programs and audit report shells are on the DCAA intranet under the Audit Programs, Audit Report Shells, Other Audit Guidance Documents and Administrative Forms page at [https://infoserv.dcaaintra.mil/AP\\_AR\\_OAG/Default.asp](https://infoserv.dcaaintra.mil/AP_AR_OAG/Default.asp).

SUBJECT: Audit Guidance on Changes to Cost Accounting Standard Related Audits

**Why the new process for reporting noncompliances?**

The new process will allow for efficient use of our limited resources. Separate reporting of noncompliances identified during Disclosure Statement (19100) and comprehensive CAS compliance (194XX) audits is not necessary. Both 19100 and 194XX assignments with findings of noncompliance will be tracked in both DCAA Management Information System (DMIS) and Contract Audit Follow-Up (CAFU). However, we will continue to report separately CAS noncompliances identified in other audits (not 19100 and 194XX) using the 19200 activity code.

**When will the Contract Audit Manual (CAM) updates be available?**

CAM updates are in process and will be available once the ongoing major rewrite of the Chapter 8 is complete. In the meantime, an auditor can seek assistance from the FAO Assistant for Quality or CAS Technical Specialist for guidance on the new process.

**Questions and Further Information**

FAO personnel should direct questions to their regional points-of-contact. Regional personnel with questions should contact Accounting and Cost Principles Division at (703) 767-3250 or e-mail at DCAA-PAC@dcaa.mil.

/Signed/

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