

Master Document – Audit Program

Activity Code 19408		Compliance Audit CAS 408
Version 5.9, dated June 2012		
B-1	Planning Considerations	
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 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>		
Planning Considerations		
<p>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.</p>		
<p>2. Materiality (see 48 CFR 9903.305) and audit risk assessment (including Internal Control Audit Planning Summary (ICAPS) for major contractors, ICQ for nonmajors, and historical CAS problems) are integral parts of the planning process and should be considered in developing the extent of CAS compliance tests.</p>		
<p>3. Once it is determined that the standard is applicable, the auditor should assess which provisions of the standard are significant to the contractor; the extent reliance may be placed on the contractor's system of internal controls to ensure compliance; 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.</p>		

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B-1	Preliminary Steps	W/P Reference
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1. Research and Planning		
	a. Review the open MRD’s for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for “MRDs, AGMs, & AMGMs”	
	b. Read and become familiar with the criteria in CAS 408, CAM 8-408, and any recent Headquarters guidance not incorporated in CAM.	
	c. 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.	
	d. 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..	
	e. Examine the FAO permanent files (including ICAPS or ICQ, audit leads from other relevant audits, and MAARs Control Log) and prior audit workpackages 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.	
	f. If appropriate, coordinate with the FAO technical specialist, CAC, and/or regional specialist on matters of interpretation and policy.	
	g. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should	

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immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit. .	
h. Electronically transmit an acknowledgement/notification to the ACO/CAFO notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in 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.	
(6) Chart of accounts applicable to CAS 408.	
(7) Account balances at the end of the two most recent accounting periods.	
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. Examine the ICQ or relevant ICAPS (whichever is applicable) to obtain information regarding accounting system adequacy, identify any known outstanding system deficiencies, and perform preliminary assessment of risk. Document results.	
b. 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. With the proper planning auditors	

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<p>should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.</p>	
<p>c. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor's environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team's understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See "Principal Sources of Fraud Indicators" below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc. • CAM Figure 4-7-3. <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
<p>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.</p>	
<p>e. Coordinate the scope of audit with the technical specialist and/or</p>	

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the supervisor.	
f. Update the information in the permanent files as needed. (MAAR 3)	

C-1	Compensated Personal Absence	WP Reference
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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)): (Audit tests in this area partially satisfy the requirements of MAAR 10.)	
	(1) include all entitlement that exists at the time the liability is	

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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. (Audit tests in this area partially satisfy the requirements of MAAR 16 and MAAR 18.)	
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)). (Audit tests in this area will partially satisfy the requirements of MAAR 10)	
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)). (Audit tests in this area partially satisfy the requirements of MAAR 10)	

A-1	Concluding Steps	W/P Reference
	Version 5.9, dated June 2012	
1.	Summarize the results of audit.	
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 (see CAM 8-302.7).	
3.	Coordinate significant or unusual issues with the CFAO, FAO Manager, and if applicable, with the CAC, CHOA, or GAC 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. If a noncompliance is considered immaterial, recommend to the CFAO that the contractor be notified to correct the noncompliance and if the noncompliance is not corrected, that the Government reserves the right to make appropriate contract adjustments should the cost impact become material (see FAR 30.602).	
4.	Prepare draft audit report. If the audit scope was limited to a certain	

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<p>area(s) of the contractor’s accounting practices, modify the scope and opinion statements as necessary so that they clearly identify the limited areas audited.</p>	
<p>a. If no instances of noncompliance are found, prepare a draft audit report in accordance with CAM 10-807 (activity code 19408).</p>	
<p>b. If instances of noncompliances are found, open an assignment under activity code 19200, prepare an audit report in accordance with CAM 10-808, and close this 19408 compliance assignment with an MFR.</p>	
<p>5. If an internal control system deficiency is detected during the course of this audit, draft a flash internal control report and submit it to the contractor for comment in accordance with CAM 10-413.</p>	
<p>6. Conduct an exit conference with the contractor in accordance with CAM 4-304.</p>	
<p>7. Finalize audit report incorporating the contractor's response and audit rejoinder, if applicable.</p>	
<p>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></p>	