

Master Document – Audit Program

Activity Code 19410		Compliance Audit CAS 410
Version 6.9, dated August 2012		
B-1	Planning Considerations	
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 410 establishes criteria for the identification and allocation of general and administrative (G&A) expenses to final cost objectives. It also establishes that G&A expenses shall be allocated on a cost input base which best represents the total activity of the business. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 410 criteria. 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. 3. This program is intended to provide for the proper planning, performance, and reporting on the contractor's compliance with CAS 410. The audit steps in the program should reflect a documented understanding between the auditor, the technical specialist 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. 		
Other Planning Considerations		
<ol style="list-style-type: none"> 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 (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. 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 of reliance that 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 examinations, etc.). The decision to not test whether the contractor is complying with specific provisions of the standard should be documented. 		

Master Document – Audit Program

B-1	Preliminary Steps	W/P Reference
Version 6.9, dated August 2012		
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 410, CAM 8-410, and any recent Headquarters guidance not incorporated in CAM.	
	c. Evaluate Parts IV of the contractor's Disclosure Statement to become familiar with the disclosed accounting practices. Determine if the contractor's accounting practices have remained unchanged since the last CAS 410 compliance audit. If changes have occurred, adjust the audit scope accordingly.	
	d. Evaluate recent forward pricing or incurred cost proposals to determine whether total G&A costs are material. Consider contractor’s sales mix (i.e., CAS-covered Government contracts vs. non-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 other FAO permanent file data (i.e., relevant audit leads, MAARs Control Log, etc.) 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.	
	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	

Master Document – Audit Program

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) The contractor’s organizational structure.	
(2) The contractor's explanation of the internal control structure as it relates to CAS 410.	
(3) Any changes since the last audit.	
(4) The contractor's monitoring process, including copies of internal audit reports on CAS.	
(5) Any identified weaknesses which may have been reported and related follow-up actions.	
(6) Contractor’s products, including how they are made (i.e., make vs. buy, GFM, etc.), and customers.	
(7) Any new developments with G&A implications, e.g., joint ventures, teaming arrangements, partnerships, etc. (See CAM 7-1800.	
(8) Review permanent files and prior audit assignments (e.g., forward pricing, incurred cost and financial capability audits) to determine whether the contractor is involved in any off-balance sheet financing activities. If the contractor has off-balance sheet activity, determine the impact of the activity on the home office cost allocation bases (see CAM 9-703.4d). <ul style="list-style-type: none"> • If the contractor is publicly held, off-balance sheet financing activities will be identified in the “Management’s Discussion and Analysis” (MDA) section of the contractor’s quarterly and annual SEC filings (see CAM 14-306a(1)). If a review of the SEC filings has not been performed in a prior audit for the period(s) covered by the CAS audit, review the SEC filing. Quarterly and annual 	

Master Document – Audit Program

<p>SEC filings can be accessed via the Securities and Exchange Commission website at http://www.sec.gov.</p> <ul style="list-style-type: none"> • If the contractor is not publicly held, review the contractor’s last financial capability audit to determine if the contractor has provided written confirmation that its financial statements include disclosure of all off-balance sheet arrangements and related party transactions. If the contractor has not provided the written confirmation, request the contractor to provide this documentation. (See CAM 14-306a(2)) <p>Note: A proforma letter requesting contractor confirmation of the financial statements is included in the APPS of Financial Capability Audits (17600), Other Audit Guidance section, entitled ConfirmLtr – Financial Statements.</p>	
<p>(9) If the business unit receives any home office allocations or performs any home office functions.</p>	
<p>(10) Any Special Allocation(s) from its G&A expense pool (CAS 410.50(j))</p>	
<p>b. If reliance is to be placed on the work of others, the file should contain the required documentation (see CAM 4-1000).</p>	
<p>c. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>3. Risk Assessment</p>	
<p>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.</p>	
<p>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 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. Determine high-risk areas by evaluating the most recent incurred cost or forward pricing proposal. Specifically examine the most current year for the following information:</p>	
<p>(1) Significant G&A accounts.</p>	
<p>(2) Nomenclature of accounts that do not meet the definition of</p>	

Master Document – Audit Program

G&A.	
(3) Comparative Analysis of Prior Years & Budgets and Forward Pricing Forecasts (MAAR 15).	
(4) Determine provisions of the standard that are material.	
<p>d. 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>	
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 transaction testing to be performed to determine the contractor’s compliance with CAS	

Master Document – Audit Program

410.	
f. Update the information in the permanent files as needed. (MAAR 3)	

C-1	Evaluation of the Contractor’s Organization and Operations	W/P Reference
Version 6.9, dated August 2012		
1.	Obtain current organization charts, product descriptions, description of operations, department descriptions, and other data describing the functions, activities and responsibilities of the various contractor operations.	
2.	Using the data gathered in Step 1, determine if the contractor has correctly identified the business unit as defined in CAS 410.30(a)(2).	

D-1	Evaluation of G&A Expense Pool	W/P Reference
Version 6.9, dated August 2012		
1.	From the contractor’s most recent incurred cost claim or Forward Pricing Rate Proposal (FPRP), obtain the following data:	
	a. cost input base,	
	b. breakdown of G&A expenses, including any expenses which do not meet the definition of G&A,	
	c. computation of the G&A expense rate. (MAAR 19)	
2.	Determine if G&A expenses are grouped in a separate pool and allocated only to final cost objectives (CAS 410.40(a)) or if the G&A expenses are combined with other expenses, the G&A expenses can be separately identified (CAS 410.50(b)). (MAAR 14)	
3.	Determine if the expenses included in the G&A expense pool meet the definition of G&A expense in CAS 410.30(a)(6). (MAAR 16)	
	a. Obtain a detailed breakdown of the actual costs or departmental budget and organization charts for the selected categories of expense(s) /department(s).	
	b. Interview managers and determine if the activities in this area benefit the business unit as a whole.	
	c. Verify manager’s assertions about department or organization activities. Evaluate department descriptions, position descriptions,	

Master Document – Audit Program

signature authority, policies & procedures, correspondence, etc.	
d. Expenses which do not meet the CAS 410 definition of G&A but which have been classified as G&A may remain in the G&A Expense pool unless they can be allocated on a better base than the selected G&A base (CAS 410.40(d)) or if insignificant in amount (CAS 410.50 (c)), the expenses may be included in the G&A expense pool (CAS 410.40(a)).	
e. If a single element or value-added cost input base is used, verify that the G&A expense pool is purified of “direct material” and “subcontract” related expenses.	

E-1	Business Unit G&A Expenses Allocated from the Home Office	W/P Reference
Version 6.9, dated August 2012		
1.	Ensure home office expenses received by a segment are allocated to the segment's cost objectives as follows:	
a.	Evaluate the following types of home office expenses allocated to the business unit to determine if costs are related to the unit as a whole. If so, the costs shall be included in the unit's G&A pool (CAS 410.50(g)(1)):	
	(1) Residual expenses	
	(2) Line management expenses	
	(3) Directly allocated G&A type expenses	
b.	Evaluate separately allocated home office expenses to determine if a beneficial/causal relationship to a final cost objective is measurable and allocated in proportion thereto (CAS 410.50(g)(2)).	
2.	Ensure G&A expenses of a segment incurred by another segment are removed from the incurring segment's G&A pool and allocated to the benefiting segment on a beneficial or causal relationship.	
3.	When a segment performs home office functions and also performs as an operating segment, determine if the expense of the home office functions are segregated and allocated on a causal/beneficial relationship to all causing or benefiting segments (CAS 410-50(h)) (MAAR 18).	
a.	Determine the effect organizational changes or reorganization have had on G&A allocation by examining organization charts; and	

Master Document – Audit Program

<p>b. Discuss those divisions, product departments, plants, or other subdivisions of the organization that have responsibility for profit and or producing a product or service with the contractor.</p>	
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--

F-1	G&A Allocation Base (MAAR 18)	W/P Reference
	Version 6.9, dated August 2012	
	1. Using the data obtained from the contractor’s incurred cost claims or FPRPs, determine:	
	a. The type of G&A base used by the contractor, i.e., total cost input, value added or single element.	
	b. Request the contractor’s rationale for using a particular cost input base.	
	c. Obtain the composition of the contractor’s cost input base. To the extent practicable, obtain the composition by contract by cost element, etc.	
	2. Determine if G&A expenses are allocated to final cost objectives by means of a cost input base representing the total activity of the business unit for the cost accounting period (CAS 410.40(b)(1)).	
	a. Evaluate the contractor’s rationale for using a particular cost input base.	
	b. Evaluate if “direct material” and “subcontracts” cause a distortion in the allocation of G&A expense.	
	3. Evaluate the allocation base in relation to the pool expenses (ref. W/P D-1, Step 3):	
	a. Do the G&A expenses have a causal/beneficial relationship to the cost objectives in the G&A allocation base?	
	b. Does the contractor’s base selected best represent the total activity of the business unit?	
	4. Ascertain that all costs of the applicable cost input base are included in the computation of the G&A allocation base. The cost input base used shall include all significant elements of that cost input which represents the total activity of the business unit. Cost input shall include those expenses which by operation of this standard are excluded from the G&A expense pool and are not part of a combined pool of G&A expenses and other expenses allocated using the same allocation base (CAS 410.50(d)(1),(2), and (3)).	
	a. When computing a value-added base, care should be taken when deducting “direct material” and “subcontract” costs from total	

Master Document – Audit Program

costs. Determine if the contractor made appropriate inclusions and/or exclusions from the value added base:	
(1) Determine if the contractor has properly classified purchased direct labor as “direct labor” and not as a “subcontract.”	
(2) Determine if other expenses in Other Direct Costs are properly classified.	
b. If applicable, evaluate cooperative arrangements (partnerships, teaming arrangements or collaboration agreements) which may limit or avoid the allocation of G&A expenses that are normally allocated to subcontracts:	
Evaluate written agreements carefully to see if the characteristics of joint control and management usually associated with joint ventures are evident. If the characteristics of joint control and management are not evident, then the terms of the business arrangement should be evaluated to see if a prime contractor/subcontractor relationship exists and should be included in the G&A allocation base.	
c. Determine if the contractor has included all applicable costs, including unallowable costs, in the G&A allocation base.	
5. A special allocation to a particular final cost objective is permitted when the cost objective receives significantly more or less benefit from G&A than would be reflected by an allocation using the selected G&A cost input base. If there is a special allocation:	
a. Verify that the contractor provided a change in its disclosed cost accounting practices to the CFAO for approval of the special allocation.	
b. Determine if the particular contract or final cost objective is different from the normal operations and activities of the business.	
c. Verify that the amount of the special allocation has been excluded from the G&A pool. and	
d. Verify that the particular final cost objective's cost input has been excluded from the G&A base. (CAS 410.50(j))	
6. Determine that the cost input for items produced for stock or product inventory, if any are included in the G&A base for the period incurred (CAS 410.50(i)(1)).	
7. For allocating G&A to items produced for inventory, one of two methods may be used. However, the method selected must be consistently applied:	
a. G&A for the period in which the items are produced may be inventoried (CAS 410.50(i)(2)); or	

Master Document – Audit Program

<p>b. G&A rate for the period in which items are issued to final cost objectives may be used to determine the G&A expenses applicable to issues of stock or product inventory items-(CAS 410.50(i)(3).</p>	
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--

A-1	Concluding Steps	W/P Reference
Version 6.9, dated August 2012		
1.	Summarize the results of audit	
2.	Discuss the audit results with the technical specialist and supervisor. 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 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.	
a.	If no instances of noncompliance are found, prepare a draft audit report in accordance with CAM 10-807 (activity code 19410).	
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 19410 compliance assignment with an MFR.	
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.	
6.	Conduct an exit conference with the contractor in accordance with CAM 4-304.	
7.	Finalize audit report incorporating the contractor's response and audit rejoinder, if applicable.	
8.	Update the permanent files. <i>Ensure that a copy of DMIS Report No. CAS 3 entitled “CAS Compliance Testing (Activity Code 194XX)” is</i>	

Master Document – Audit Program

<i>included in the permanent file after the assignment as been closed in DMIS.</i>	
------------------------------------------------------------------------------------	--