

## Master Document – Audit Program

<b>Activity Code 19414</b>	<b>Compliance Audit CAS 414</b>
<b>Version 5.14, dated November 2015</b>	
<b>B-1</b>	<b>Planning Considerations</b>
<b>Audit Specific Independence Determination</b>	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 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>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 414 establishes the criteria for measuring and allocating an appropriate share of the cost of money, which can be identified with the facilities employed in a business. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 414 criteria. FAR 31.205-10 makes CAS 414 applicable to all contracts, even contracts which are not CAS-covered or subject only to modified CAS coverage. Auditors should ensure that proposed or claimed cost of money, when significant, are in compliance with the provisions of CAS 414.</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 414. The audit steps in the program should reflect a documented understanding between the auditor and the CAS 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>	

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<b>Other Planning Considerations</b>
<p>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.</p> <p>Next, the auditor should determine if the contractor’s proposal or claim for reimbursement excludes the cost of money. If the contractor excludes the cost of money the contractor is still required to compute the cost of money factors and a failure to do so is considered a violation of a requirement of the standard. Verify this condition with the contractor and proceed to step D-1 of the audit program. If compensation for the use of the facilities is based on use rates or allowances in accordance with other Federal procurement regulations, then CAS 414 and FAR 31.205-10, Cost of Money cost principle, do not apply (CAS 414.62(b)).</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 relevant other 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>
<p>4. There is a direct correlation between the level of transaction testing required and the results of the most current CAS 404 and CAS 409 compliance audits. It is recommended that the CAS compliance audits for CAS 404 and 409 be completed prior to beginning a CAS 414 compliance audit.</p>
<p>5. Prior commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.</p>

<b>B-1</b>	<b>Preliminary Steps</b>	<b>W/P Reference</b>
	<b>Version 5.14, dated November 2015</b>	
	<b>1. Research and Planning</b>	
	a. Read and become familiar with the criteria in CAS 414. Identify	

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<p>any changes in the CAS 414 standard since the last examination.</p>	
<p>b. Evaluate recent forward pricing or incurred cost proposals to determine whether total costs subject to CAS 414 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.</p>	
<p>c. Evaluate Part IV of the contractor's Disclosure Statement to become familiar with the disclosed accounting practices. Determine if the contractor's accounting system, especially capitalization practices (CAS 404) or the depreciation and/or amortization procedures (CAS 409), has remained unchanged since the last CAS 414 compliance audit. If changes have occurred, adjust audit scope accordingly.</p>	
<p>d. There is a direct correlation between the level of transaction testing required and the results of the most current CAS 404 and CAS 409 compliance audits. The accuracy of net book value components should be transaction-tested during CAS 404 and 409 compliance audits. If these audits are current and complete, transaction testing may be reduced. If these audits are not current and complete, increased risk may result and the level of transaction testing may need to be increased. Determine if the CAS 404 and CAS 409 compliance audits are current and complete.</p>	
<p>e. Examine FAO permanent file data (i.e., relevant audit leads, MAARs Control Log) and prior 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>f. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures:</p> <p>(1) During the entrance conference, 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</p>	

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<p>to test the corrective actions.</p> <p>(2) Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.)</p>	
<p>g. 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 under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <p>(1) During the entrance conference:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result.</li></ul> <p>(2) If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• Document the results of the determination in writing.</li><li>• If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.</li></ul>	

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<ul style="list-style-type: none"> <li>• 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.</li> <li>• The request, issued by the CAC, FAO POC or auditor, 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 work papers.</li> </ul> <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"> <li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li> <li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li> </ul> <p>(4) Document the results of the inquiries including the response received from contractor’s 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 address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)</p>	
<p>h. If appropriate, coordinate with FAO technical specialist, CAC, and/or regional specialist on matters of interpretation and policy.</p>	
<p>i. 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 immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.</p>	
<p>j. 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.</p>	

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<p>k. Determine if the contractor uses the CASB-CMF Form for each cost accounting period in computing the proposed/final COM dollars.</p>	
<p><b>2. Entrance Conference and Preparation</b></p>	
<p>a. Arrange and conduct an entrance conference covering the areas highlighted in CAM 4-302 with particular emphasis on:</p>	
<p>(1) Requesting the contractor's explanation of the internal control structure.</p>	
<p>(2) Any changes since the last CAS 414 audit.</p>	
<p>(3) The contractor's monitoring process.</p>	
<p>(4) Any identified weaknesses which may have been reported and related follow-up actions. If applicable, include a follow up with contractor management on:</p> <ul style="list-style-type: none"> <li>• corrective actions that address previous DCAA audit findings and recommendations (step 1g),</li> <li>• other studies or audits that impact the subject matter under audit (step 1h).</li> </ul>	
<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><b>3. Risk Assessment</b></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. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit,</p>	

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<p>managements awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be documented in the working papers.</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 noncompliances, due to error or fraud, that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"><li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),</li><li>• relevant aspects of the contractor and its environment</li><li>• risk of material noncompliance due to fraud (e.g., the extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements),</li><li>• other known risk factors</li><li>• the audit team’s understanding of relevant internal controls</li><li>• inquiries to the contractor regarding its fraud management plans and controls.</li></ul> <p>Document fraud risk factor/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If Fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none"><li>• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (<a href="http://gao.gov/products/GAO-12-331G">http://gao.gov/products/GAO-12-331G</a>)</li><li>• AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (<a href="http://www.aicpa.org/Research/Standards/AuditAttest/Do">http://www.aicpa.org/Research/Standards/AuditAttest/Do</a>)</li></ul>	

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<p><a href="#">wnloadableDocuments/AU-C-00240.pdf</a></p> <ul style="list-style-type: none"> <li>DoDIG’s Contract Audit Fraud Scenarios and Resources website (<a href="http://www.dodig.mil/resources/fraud/resources.html">http://www.dodig.mil/resources/fraud/resources.html</a>)</li> </ul> <p>(To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
<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.</p>	
<p>f. Update the permanent files (MAAR 3.)</p>	

C-1	COM Factors - CASB-CMF FORM (Appendix A to 9904.414)	W/P Reference
	<b>Version 5.14, dated November 2015</b>	
	If the contractor’s proposals and submissions have historically been mathematically accurate, then risk may decrease. If the contractor’s proposals and submissions have historically been mathematically inaccurate, then risk may increase.	
	If forward pricing activity is significant or will substantially increase based on the contractor’s long-range plan, then risk may increase. A reduction in forward pricing activity may result in decreased risk.	
	<b>1. Mathematical Accuracy (MAAR 19)</b>	
	Verify that the amounts computed in CASB-CMF are in accordance with Appendix A to 9904.414-Instructions for Form CASB-CMF.	
	<b>2. Applicable COM Rate (Column 1)</b>	
	a. For forward pricing purposes determine that the latest available interest rates specified by the Secretary of the Treasury pursuant to Public Law 92-41, (distributed semi-annually by Headquarters) is used for each proposed cost accounting period (CAS 414.50(b)).	
	b. For incurred cost purposes, determine that the COM rate is the weighted (not simple or midpoint) average of those published Secretary of Treasury rates in effect during the cost accounting	



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period(s) applicable to the contract.	
<b>3. Accumulation of Direct Distribution of NBV (Column 2)</b>	
If the contractor’s supporting documentation for acquisitions, leases, and depreciation amounts has historically been readily available and adequate, then the risk may be decreased. If the contractor’s supporting documentation for acquisitions, leases, and depreciation amounts has historically been unreliable, not readily available or inadequate, increased risk may result.	
If forward pricing activity is significant or will substantially increase based on the contractor’s long-range plan, then risk may increase. A reduction in forward pricing activity may result in decreased risk.	
Determine that the net book values (NBV) used by the business unit for determining actual and projected COM are computed from the same accounting data as used for contract cost and estimating purposes, as appropriate (CAS 414.50(a)).	
a. For Tangible Assets:	
(1) Determine that the estimates are supported by budget plans or similar type documentation.	
(2) Determine that the actual NBVs are supported by historical asset records.	
(3) Verify that the acquisition costs of assets were based on provisions of CAS 404.	
(4) Determine that the depreciation charges are the same as those used for projected/final overhead rates.	
(5) Verify that the depreciation methods and service lives for assets were based on provisions of CAS 409.	
b. For Intangible Assets:	
(1) Determine that such assets generate an allowable amortization charge. If not, remove assets from COM computation. If yes, perform the following steps.	
(2) Determine if the estimates are supported by budget plans, and/or	
(3) Determine if the actual costs are supported by historical asset records.	
(4) Determine that the acquisition costs and the amortization charges used to compute the NBV are reasonable and are the	

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same as used for projected/final overhead rates.	
c. When the projected NBVs are based on or are the same as the actual data from a contractor's latest cost accounting period, determine that such experience is representative of the projected period(s).	
d. Existence of idle facilities, potential idle facilities, or assets not in use may increase risk. Restructuring activities or other reorganizations may result in unutilized assets that may indicate increased risk. Determine that the asset base includes only those assets used in the regular course of business. Perform analysis to determine if unutilized or underutilized assets are an integral part of the regular operations of the business. Land should be included if the contractor can support its purchase as an integral part of its operations. The following assets should not be included:	
(1) Land held for speculation or expansion.	
(2) Idle facilities or capacity in accordance with FAR 31.205-17.	
(3) Assets under construction and not in use.	
e. Determine that the inclusion or exclusion of assets is consistent with the allowability or unallowability of the costs generated by those facilities for proposed and incurred cost purposes. (Completion of this step will assist in accomplishing MAAR 16.)	
f. Determine that the amounts shown for estimated/actual NBV represent the mean (simple average) of the beginning and ending NBV.	
(1) Where there is a major fluctuation in the level of the assets, the simple averaging of the NBVs may not be appropriate. In this case recommend a method for calculating an average that more accurately reflects the actual condition.	
(2) When applicable, request an assist audit for NBV amounts included for the business unit's allocable share of corporate or group home office facilities.	
g. At a Corporate home office determine that the NBV of assets held by the corporate or group home office are allocated to the business units on a basis consistent with the home office allocation. (If a CAS 403 compliance audit has been recently completed, then information available in it should assist in completing this step.)	
h. Determine if the capitalized value of leases for which constructive costs of ownership are allowed in lieu of rental costs under Government procurement regulations are included.	

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<p><b>4. Allocation of Distributed and Undistributed Amounts (Column 2 and Column 3)</b></p>	
<p>Determine that the total NBV of facility assets are identified and allocated to indirect cost pools and G&amp;A as distributed (Column 2) and undistributed (Column 3). The following criteria should be used:</p>	
<p>a. Distributed amounts represent NBV of the assets which are charged to a specific cost pool.</p>	
<p>b. Undistributed amounts represent the difference between the total NBV of the business unit’s assets (Column 2) and the distributed amounts. Undistributed assets consist primarily of items charged to service centers.</p>	
<p>(1) Under the regular method, undistributed assets represent the allocation to the appropriate indirect expense pools on a basis that approximates the actual absorption of depreciation/amortization of the facilities. Determine that these amounts are allocated on a reasonable basis.</p>	
<p>(2) Under the alternative method the undistributed assets represent the allocation to the G&amp;A expense pool. The alternative method may be used only if the contracting parties agree that depreciation / amortization generated by the undistributed assets is immaterial or the results obtained from this alternative procedure are comparable to those which would have been obtained under the regular method. Determine that these are allocated entirely to the G&amp;A pool.</p>	
<p>(3) Determine that the sum of the amounts in Column 3 equals the total undistributed amount in Column 2.</p>	
<p><b>5. COM For The Cost Accounting Period (Column 5)</b></p>	
<p>Determine that this column is the sum of products of the applicable cost of money rate times the NBVs (Column 4) for each of the indirect cost pools and the G&amp;A pool (CAS 414.40(b)).</p>	
<p><b>6. Allocation Base for the Cost Accounting Period (Column 6)</b></p>	
<p>Determine that the allocation bases used for: (completion of this step will assist in accomplishing MAAR 18)</p>	

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a. Projected COM factors are consistent with those used in estimated overhead rates.	
b. Final COM factors are the final audit determined or negotiated allocation bases used to finalize flexibly priced contracts.	

<b>D-1</b>	<b>Proposed and Final COM Dollars</b>	<b>W/P Reference</b>
<b>Version 5.14, dated November 2015</b>		
1.	If the contractor excludes the COM from its proposal or claim for reimbursement, such costs are unallowable in accordance with FAR. In addition, the contractor is still required to compute the COM factors, and the failure to do so is considered a violation of a requirement of the standard. However, the noncompliance usually does not result in increased costs paid by the Government. Therefore, issue noncompliance reports only if the acquisition office or the CFAO requests them.	
2.	Determine if the contractor’s practice is to include COM in its price proposals. Include a comment in the audit report advising the contracting officer of the contractor’s estimating practice and that COM is not allowable per FAR unless specifically identified or proposed in cost proposals relating to contracts under which COM is claimed.	
3.	Determine that the final COM factors are submitted along with other final overhead rates for a cost accounting period.	
	The incurred COM may be supported by a memorandum record (need not be entered formally on the books of account). Determine that the memorandum record should be supported by a final CASB-CMF Form and other data which shows the application of final factors to actual indirect cost pool(s) allocation base(s) for the final costs claimed on flexibly price contracts.	
4.	The COM factors may or may not be included in the G&A base. Determine that this alternative is consistently applied.	

<b>A-1</b>	<b>Concluding Steps</b>	<b>W/P Reference</b>
<b>Version 5.14, dated November 2015</b>		
1.	Summarize and document the results of audit.	
2.	Discuss the audit results with the supervisor and, if applicable the technical specialist. The auditor should report only those noncompliances which are considered material. Coordinate significant	

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<p>or unusual issues with the CFAO, FAO Manager, and if applicable, with the CAC, CHOA, or GAC network (see CAM 8-302.4, 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>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.</p>	
<p>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 w/p A-01) and Opinion (from w/p A) section of the report, as necessary, so that they clearly identify the limited areas audited.</p>	
<p>4. If a material weakness/significant internal control deficiency is detected during the course of this audit, ensure that the findings have been fully developed and that a material weakness truly exists. If so, open a Business System Deficiency (Activity Code 11090) assignment to report the deficiency and submit it to the contractor for comment.</p>	
<p>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.</p>	
<p>6. Finalize audit report (and memorandum, if applicable) incorporating the contractor's reaction and auditor’s response, if applicable.</p>	
<p>7. Complete the administrative working papers.</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>	
<p>9. Submit the working paper package and draft report (and memorandum, if applicable) to the supervisor/manager for final</p>	

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review and processing.	
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