

# FORVIS



## **CAS: The Series – *The Pilot Episode***

The first in a 12-part webinar series on the Cost Accounting Standards

# Your Instructors



**Steve Trautwein**  
**Sr. Manager**  
**Dixon Hughes Goodman LLP**  
  
Steve.Trautwein@dhg.com



**Bill Walter, CPA**  
**Managing Director**  
**Dixon Hughes Goodman LLP**  
  
(703) 970.0509  
Bill.Walter@dhg.com

Government Contracting



**Gary McDonald**  
**Managing Director**  
**Dixon Hughes Goodman LLP**  
  
(703) 970.0509  
Gary.McDonald@dhg.com

# Agenda

- Layout of the series
- Background of the CAS
- How a Standard is promulgated
- CASB Recent Actions
- Future of the CAS

GOVERNMENT CONTRACTING

# Polling Question

- What is your level of comfort with the CAS?
  1. CAS is new to me
  2. I have had some CAS training in the past
  3. I have worked with CAS covered contracts before
  4. I am comfortable discussing cost accounting practices
  5. I am an expert in CAS



# Layout of the Series

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# Layout of CAS the Series

- Pilot Episode – 90-minute webinar to kick off the series
- Individual 60-minute episodes:
  - Episode 1 – CAS Clauses, Exemptions and Full/Modified CAS
  - Episode 2 – Cost Accounting Practice Changes & Administration
  - Episode 3 – CAS 401, 402, 405 & 406
  - Episode 4 – Compensation – CAS 408, 412, 413 & 415
  - Episode 5 – Direct and Indirect Costs – CAS 418
  - Episode 6 – Home office allocations – CAS 403

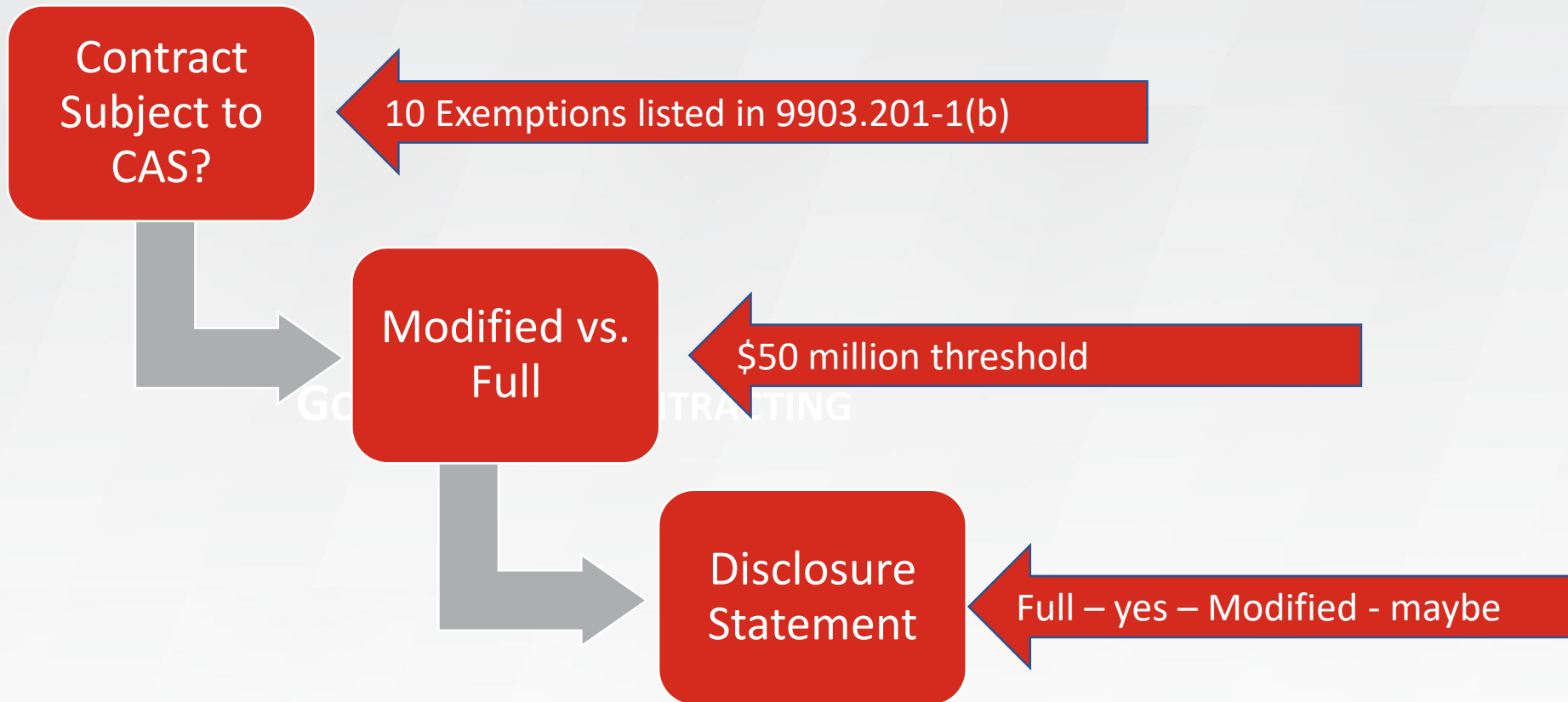


# Layout of CAS the Series

- Episode 7 – G&A and B&P/IR&D – CAS 410 & 420
- Episode 8 – COM and Standard Costs – CAS 407, 414 & 417
- Episode 9 – Assets & Material – CAS 404, 409 & 411
- Episode 10 – Insurance and CAS 419 – CAS 416 and the mystery of CAS 419
- Episode 11 – Disclosure Statements
- Episode 12 – CAS Administration – Roles of DCMA & DCAA

# CAS in a minute!

- Contracts are subject to CAS – not contractors!





# Background

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# Polling Question

- Who said “Those who cannot remember the past are condemned to repeat it?”
  1. Henry Ford
  2. Winston Churchill
  3. George Santayana
  4. Elmer Staats
  5. Benjamin Franklin

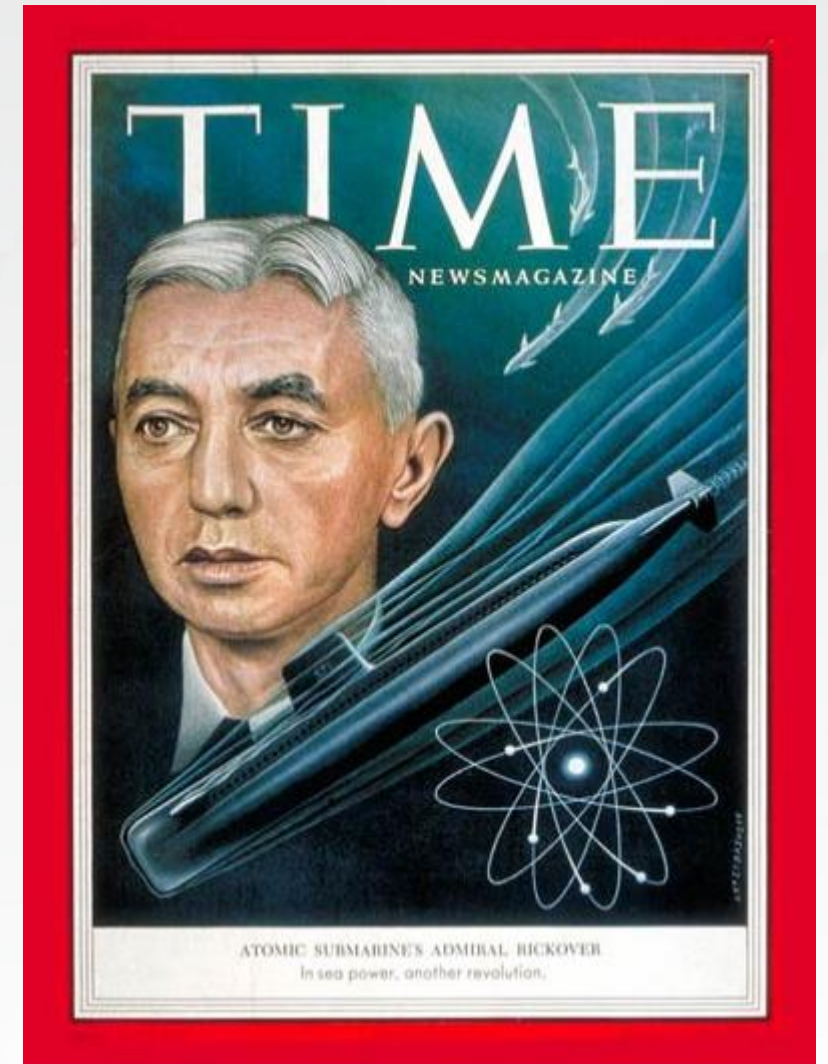


# Why Do We Need CAS?

- In FY2020, the Government obligated \$1.1 Trillion in contracts for goods and services (*Source [www.usaspending.gov](http://www.usaspending.gov)*)
- Pricing of most contracts (by contract count) uses market forces to establish fair and reasonable pricing:
  - Competition
  - Commercial Items
- Pricing is challenging for contract actions where there is a reliance on cost data to support price:
  - Single/sole source contracts
  - Cost reimbursement contracts
  - Other contracts
- Complex nature of cost accounting practices tied to cost justified contract pricing (significant \$ amount)

# Conditions in the 1960's

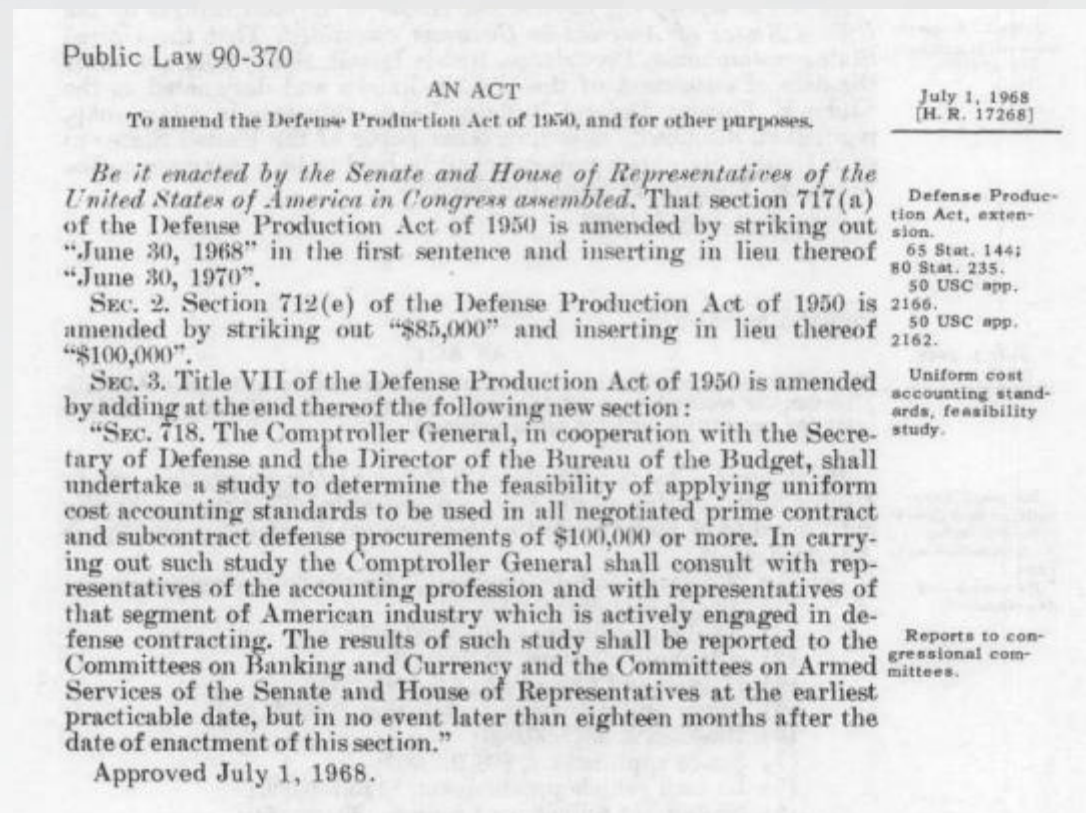
- 1968 - Defense Production Act – up for renewal
- Rickover testimony:
  - Vigorously complained that the government could not identify costs properly to negotiated contracts
  - GAAP allows a wide variety of accounting practices
  - Nearly impossible to evaluate contract costs
  - No reasonable basis to compare competing offerors
  - No confidence that industry, the accounting profession or the executive branch would take action to develop needed accounting standards
- Predicted \$2 billion in savings - *2.4% based on \$84.33 in 1968 DoD Spending* ([www.macrotrends.net](http://www.macrotrends.net))





# Congress Reaction

- House – Added a provision requiring the Comptroller General to promulgate accounting standards
- Senate – Required the Comptroller General to study the feasibility of applying consistent cost accounting standards across negotiated defense contracts and subcontracts.
- Senate bill was ultimately accepted and signed into law as the Defense Production Act Amendment of 1968, Public Law 90-370
- Signed into law on July 1, 1968 by President Lyndon B. Johnson

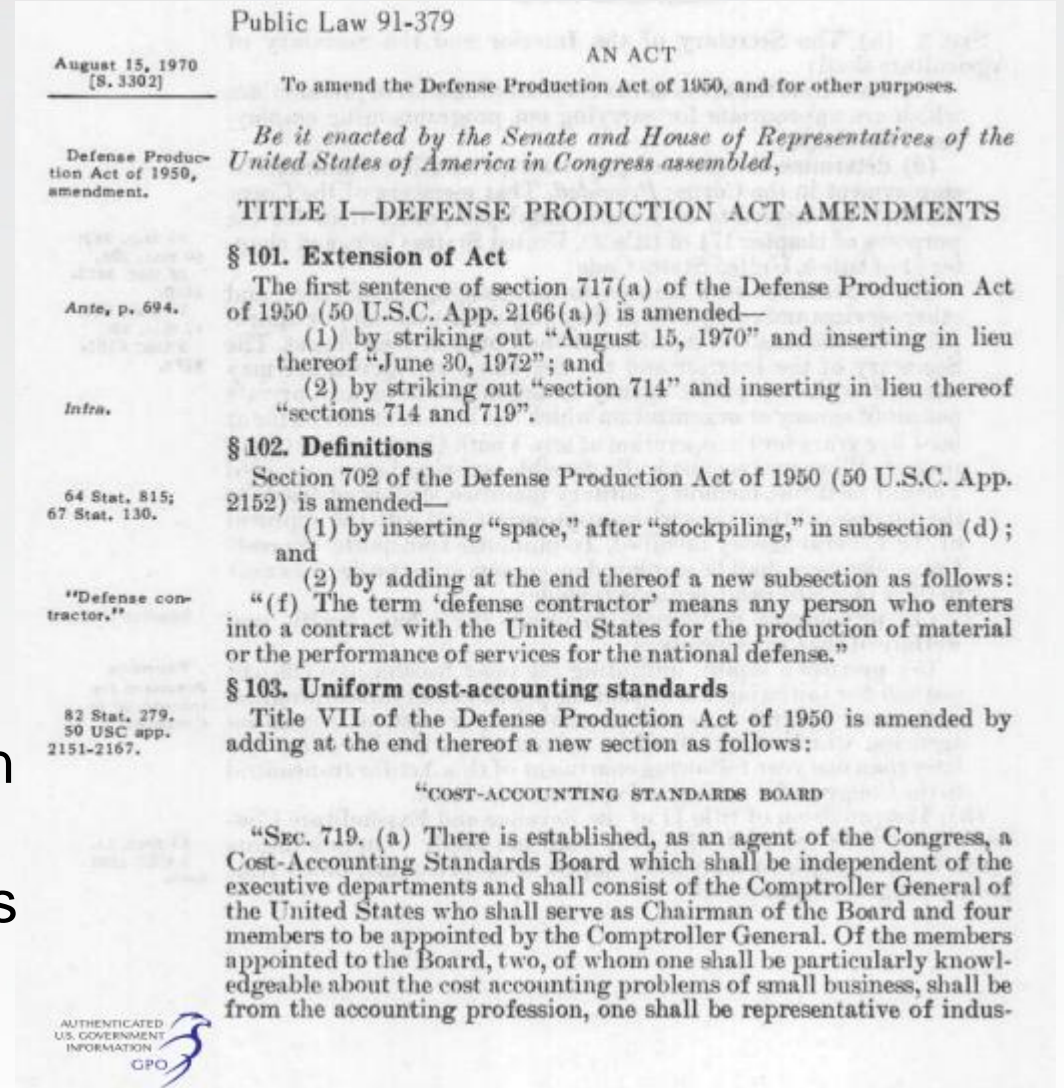


# The Feasibility Study

- The Comptroller General's study was submitted in January 1970:
- It was feasible to establish and apply cost accounting standards:
  - to provide a greater degree of uniformity and consistency as a basis for negotiating and administering contracts
  - that should not require the application of precisely prescribed methods of computing each different type of cost
  - that should not be limited to cost reimbursement type contracts
  - where the cumulative benefits should outweigh the implementation cost
  - that evolve from sound commercial practices – compatible with GAAP
  - established by a new machinery (CASB) to develop standards and perform research and maintenance to provide for effective administration

# Congress 1970 to 1972

- House – Provision to extend Defense Production Act to 1972 and create a Cost Accounting Standards Board
- Public Hearings in both House and Senate
- Government – principal proponents of CAS
- Industry – opposed legislation:
  - Uniform standards not adequately defined
  - The need for standards has not been demonstrated
  - Cost will likely exceed the benefit
  - Desired objectives could be achieved within existing regulatory framework
- Passed the Defense Production Act Amendments of 1970, Public Law-379





# Public Law 91-379

- Established the Cost Accounting Standards Board (CASB) as an “agent of the Congress” – independent of the executive departments
- Created a five member CASB – Comptroller General will lead and appoint 4 members – two of whom “shall be particularly knowledgeable about cost accounting problems of small business, shall be from the accounting profession” – one from industry
- Issue clearly stated CAS to achieve (1) an increased degree of uniformity in cost accounting practices among Government contractors in like circumstances, and (2) consistency in cost accounting practices in like circumstances by individual Government contractors over periods of time.
- Applied to negotiated defense prime contracts and subcontracts of \$100,000 or more unless the price was based on catalog or market or law or regulation
- Allowed CASB to grant additional exemptions
- Requires disclosure, in writing, of cost accounting practices
- CASB went out of business on 9/30/1980 - however the Standards promulgated remained in effect

# Public Law 100-679

- Re-established a five member CAS Board
  - Chair – Administrator, OFPP
    - + Members:
      - > Director, Defense Contract Audit Agency
      - > Industry Representative
      - > Chief Financial Officer, GSA
      - > Accounting Member
- Increased contract threshold to \$500,000
- CAS coverage expands to non-defense contracts

# Polling Question

- Where does the CAS align in terms of federal branches of government?
  1. Congress
  2. Executive
  3. Judicial

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# How A Standard is Promulgated

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# The Standard Making Process

- Prior to the establishment of any new or revised CAS, the CASB must follow a prescribed rulemaking process.
- The process generally consists of the following four steps:
  1. Consult with interested persons concerning the advantages, disadvantages and improvements anticipated in the pricing and administration of government contracts as a result of the adoption of a proposed Standard
  2. Promulgate an Advance Notice of Proposed Rulemaking (ANPRM)
  3. Promulgate a Notice of Proposed Rulemaking (NPRM)
  4. Promulgate a Final Rule
- Generally, each step is published through the Federal Register

# The Format of the Standards

- Purpose (.20)
- Definitions (.30)
- Fundamental Requirement (.40)
- Techniques for Application (.50)
- Illustrations (.60)
- Interpretation (.61)
- Exemption (.62)
- Effective Date (.63)



# The Cost Accounting Standards

- BASIC Standards
  - CAS 401: Consistency
  - CAS 402: Direct v. Indirect Costs
  - CAS 405: Unallowable Costs
  - CAS 406: Cost Accounting Period
- The Cost Allocation Standards
  - CAS 407: Standard Costs
  - CAS 414: Cost of Money
  - CAS 410: General & Administrative
  - CAS 403: Home Office expenses
  - CAS 418: Direct & Indirect
  - CAS 420: B&P and IR&D
- Asset Accounting Standards
  - CAS 404: Capitalization
  - CAS 409: Depreciation
  - CAS 417: Self Constructed Assets
- Compensation Standards
  - CAS 408: Compensated Assets
  - CAS 412 & 413: Pensions
  - CAS 415: Deferred Compensation
- Other Standards
  - CAS 411: Material Costs
  - CAS 416: Insurance Costs



# Interpreting the Standards

- The FAR and the CAS
- DoD Working Group Guidance
- Official Interpretations
- DCMA Guidance
- DCAA Guidance

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# The FAR and the CAS

- Relationship between FAR and CAS
  - CAS – Legislative Branch
  - FAR – Executive Branch
- CAS: Accounting practices and allocation procedures for charging costs to contracts
  - FAR Part 30: Implementing and Administrative Requirements
  - FAR Part 31: Criteria on Cost Allowability
- The Boeing Company, ASBCA 28,342 (1985) - *“Because CAS is mandatory . . . CAS was controlling with respect to the determination, measurement, assignment, and allocation” of costs*

# Polling Question

- How active has the CASB been?
  1. Very active, meeting regularly
  2. Fairly active, meeting a couple of times each year
  3. Minimally active
  4. Has not met for many years



# DoD Working Group Guidance

- 1976 – DoD Established CAS Steering Committee
- Liaison between DoD and CASB
- Developed DoD Policy guidelines to integrate CAS into procurement policies
- 25 separate WG interim guidance
- Not regulation or contractual requirements
- Worth the read . . .

WG 76-1	Implementing CAS 412
WG 76-2	Application of CAS to Contract Modifications and to Orders Placed Under Basic Agreements
WG 76-3	Application of CAS to Subcontracts
WG 76-3	Determining Increased Costs to the Government for CAS Covered FFP Contracts
WG 76-5	Treatment of Implementation Costs Related to Changes in Cost Accounting Practices
WG 76-6	Application of CAS Clause to Changes in Contractor's Established Practices When a Disclosure Statement has been Submitted
WG 76-7	Interim Guidance on the Significance of "Effective" and "Applicability" Dates Included in CAS
WG 76-8	Use of the Offset Principle in Contract Price Adjustments Resulting from Accounting Changes
WG 76-9	Measurement of Cost Impact on Firm Fixed Price Contracts
WG 77-10	Retroactive Implementation of CAS When Timely Compliance is not Feasible
WG 77-11	Implementation of CAS 410.
WG 77-12	Deliberate Noncompliance and Inadvertent Noncompliance (Obsolete)
WG 77-13	Applicability of CAS 405 to Costs Determined Unallowable on the Basis of Allocability
WG 77-14	Early Implementation of New CAS
WG 77-15	Influence of CAS on Contract Terminations
WG 77-16	Applicability of CAS to Letter Contracts
WG 77-17	Identification of CAS Contract Universe at a Contractor's Plant
WG 77-18	Implementation of CAS 414 & DPC 76-3
WG 77-19	Administration of Leased Facilities Under CAS414
WG 77-20	Policy for Withdrawing Determination of Adequacy of Disclosure Statement
WG 78-21	Amendment #1 to WG 78-21
WG 78-21	Implementation of CAS 410
WG 77-22	CAS 409 and the Development of Asset Service Lines
WG 79-23	Administration of Equitable Adjustment for Accounting Changes not Required by New CAS
WG 79-24	Allocation of Business Unit General and Administration (G&A) Expense to Facilities Contracts
WG 81-25	Change in Cost Accounting Practice for State Income and Franchise Taxes as a Result of Change in Method of Reporting Income from Long-Term Contracts

# Official Interpretations

- CASB – Generally in Section -61 of applicable CAS
- Boards of Contract Appeals:
  - Armed Services
  - Civilian
- Federal Courts

## GOVERNMENT CONTRACTING

- *Pay attention to appeals and reversals . . .*

# DCAA Guidance

- Contract Audit Manual – Chapter 8
  - Adequacy of Disclosure Statement
  - Compliance with FAR & CAS
  - Cost Impact of changes to CAP
  - Price changes due to CAP changes are fair & reasonable
- Audit Programs
- Report to Congress

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DEFENSE CONTRACT AUDIT AGENCY

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HOME > CUSTOMERS > GUIDANCE > CAM - CONTRACT AUDIT MANUAL

**CAM – CONTRACT AUDIT MANUAL**

As of January 2013, the hardcopy of the DCAA Contract Audit Manual is no longer available.

We have provided prior years' versions of CAM in electronic format (PDF) in the CAM Archives.


The most current version of CAM is provided, by chapter, in electronic format below. User comments/suggestions are welcome; refer to Section 0-007 of the CAM for details. Current audit guidance not yet incorporated into the CAM can be found on the MRDs - Audit Guidance Memos page.

Contents	
Chapter	Title
Foreword and Introduction	DCAA Contract Audit Manual - Foreword and Introduction to the DCAA Contract Audit Manual
Chapter 1	Introduction to Contract Audit (Mar 2021)
Chapter 2	Auditing Standards ( May 2021)
Chapter 3	Audit Planning (Mar 2021)
Chapter 4	General Audit Requirements (May 2021)
Chapter 5	Audit of Policies, Procedures, and Internal Controls Relative to Accounting and Management Systems (Feb 2020)
Chapter 6	Incurred Costs Audit Procedures (Mar 2021)
Chapter 7	Reserved
Chapter 8	Cost Accounting Standards (Mar 2021)



# DCMA Guidance

- DCMA Manual 2201-02
  - Cost Accounting Standards Administration
  - Issued in 2019
  - Replaced DCMA-INST 108, “Cost Accounting Standards (CAS) Administration”
  - Updated December 2020



**DCMA Manual 2201-02**  
**Cost Accounting Standards Administration**

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<b>Office of Primary Responsibility:</b>	Indirect Cost Control Capability
<b>Effective:</b>	February 7, 2019
<b>Change 1 Effective:</b>	December 22, 2020
<b>Releasability:</b>	Cleared for public release
<b>Implements:</b>	DCMA-INST 2201, “Indirect Cost Control,” October 2, 2018
<b>Reissues and Cancels:</b>	DCMA-INST 108, “Cost Accounting Standards (CAS) Administration,” April 3, 2013, as amended
<b>Internal Control:</b>	Process flow and key controls are located on the Resource Page
<b>Labor Codes:</b>	Located on the Resource Page
<b>Resource Page Link:</b>	<a href="https://360.intranet.dcmamil/Sites/Policy/IC/SitePages/DCMA-MAN%202201-02r.aspx">https://360.intranet.dcmamil/Sites/Policy/IC/SitePages/DCMA-MAN%202201-02r.aspx</a>
<b>Approved by:</b>	David H. Lewis, VADM, USN, Director
<b>Change 1 Approved by:</b>	David G. Bassett, LTG, USA, Director

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**Purpose:** This issuance, in accordance with the authority in DoD Directive 5105.64, “Defense Contract Management Agency (DCMA)”:

- Implements policy established in DCMA-INST 2201, “Indirect Cost Control”
- Provides and defines procedures and responsibilities for the Administration of Cost Accounting Standards



# CAS – Recent Activities

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# CAS – Recent Activity

- CASB 2020-02- Conformance of CAS to GAAP - Operating Revenue and Lease Accounting
- CASB 2020-01 - Conformance of CAS to GAAP - Capitalization of Tangible Assets and Accounting for Acquisition Costs of Material
- CASB 2019-02 - Adjustment and Allocation of Pension Costs for Segment Closings, Curtailments, and Terminations
- CASB 2019-01 - Conformance of CAS to GAAP
- July 2018, Commercial item exemption the Acquisition of Commercial Items modified
- February 2018, Exemption for FFP Contracts and Subcontracts Awarded Without Submission of Certified Cost or Pricing Data

# Polling Question

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# Positioning for future sessions . . .

## ■ Episode 1 – CAS Clauses, Exemptions and Full vs. Modified CAS

### 30.201-3 -- Solicitation Provisions

- 52.230-1, Cost Accounting Standards Notices and Certification
- 52.230-7, Proposal Disclosure--Cost Accounting Practice Changes

### 30.201-4 -- Contract Clauses

- 52.230-2, Cost Accounting Standards
- 52.230-3, Disclosure and Consistency of Cost Accounting Practices
- 52.230-4, Disclosure and Consistency of Cost Accounting Practices-- Foreign Concerns
- 52.230-6, Administration of Cost Accounting Standards
- 52.230-5, Cost Accounting Standards -- Educational Institution



# Time for Questions

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