



# Defense Contract Audit Agency (DCAA) and Cost Accounting Standards (CAS)

## Explanation and Overview



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## 1. Introduction

The information outlined in this document has been captured from various government sources. This document provides an overview and starting point. The Defense Contract Audit Agency (DCAA) uses its cost accounting standards (CAS) to conduct contract audits for the U.S. Department of Defense (DOD). The Defense Contract Audit Agency (DCAA) performs all needed contract audits for the U.S. Department of Defense (DOD) and provides accounting and financial advisory services regarding contracts and subcontracts to all DOD components responsible for acquisition and contract administration. Though this agency does not certify contractors as "compliant," following DCAA recommendations and guidance allows contractors to remain compliant with federal law and to prepare for audits.

At the speed of which government regulations change, if you find an item in this document that requires updating, please send a note to [contact@rsmfederal.com](mailto:contact@rsmfederal.com).

## 2. Purpose of Standards

The Defense Contract Audit Agency (DCAA) Cost Accounting Standards (CAS) are meant to create consistency in pricing and accounting practices. Using these standards, the DCAA can measure, identify, track, and reconcile accounts, contracts, and documentation. The DCAA is responsible for recommendations to the administrative contracting officer (ACO) regarding whether a contractor's:

- 1) Disclosure statement adequately describes the actual or proposed cost accounting practices
- 2) Described practices comply with the applicable requirements of the Federal Acquisition Regulations (FAR) and CAS
- 3) Changed cost accounting practice is adequately described and compliant with the applicable requirements of FAR and CAS
- 4) Cost impact proposal is adequate and reflects the proper amount of contract price adjustments
- 5) Contractors may be required to comply with all (full coverage) or part (modified coverage) of the CAS.
  - a) **Full Coverage.** Full CAS coverage requires that the business unit comply with all of the CAS. Contractor business units must have full CAS coverage if they meet one of the following conditions:
    - i. Received a single CAS-covered contract award, including option amounts, of \$50 million or more
    - ii. Received \$50 million or more in CAS-covered contract awards during the immediately preceding cost accounting period
  - b) **Modified Coverage.** Contractors with moderate CAS coverage must only comply with CAS 401, 402, 405, and 406. The following conditions apply for modified coverage:
    - i. Modified CAS coverage applies to contractor business units that received less than \$50 million in net CAS-covered awards in the immediately preceding cost accounting period.

- ii. When any one contract is awarded with modified CAS coverage, all CAS-covered contracts awarded to that business unit during that cost accounting period are also subject to modified coverage, except that when a business unit receives a single CAS-covered contract award of \$50 million or more, that contract is subject to full coverage. Thereafter, any covered contract awarded during that accounting period and the subsequent accounting period is subject to full CAS coverage.
  - iii. The CAS status of a contract or subcontract (full coverage, modified coverage, or exempt from CAS), remains the same throughout its life regardless of changes in the business unit's CAS status in the current or subsequent cost accounting periods (i.e., a contract awarded with modified coverage remains subject to such coverage throughout its life even if subsequent period contracts are awarded with full coverage).
- c) **Subcontract Coverage.** CAS coverage at the subcontract level reflects the same CAS coverage as prime contracts awarded to the same business unit.
- d) **CAS Exemptions.** The following categories of contracts and subcontracts are exempt from all CAS requirements:
  - i. Sealed bid contracts with Firm Fixed Contracts (FFC) when the award will be made on the basis of price or other price-related factors
  - ii. Negotiated contracts and subcontracts not in excess of \$500,000 (An order issued by one segment to another segment is treated as a subcontract.)
  - iii. Contracts and subcontracts with small businesses
  - iv. Contracts and subcontracts with foreign governments or their agents or instrumentalities or, insofar as the requirements of the CAS other than CAS 9904.401 and 9904.402 are concerned, any contract or subcontract awarded to a foreign concern
  - v. Contracts and subcontracts in which the price is set by law or regulation
  - vi. Firm fixed-price and fixed-price with economic price adjustment (provided that price adjustment is not based on actual costs incurred) contracts and subcontracts for the acquisition of commercial items
  - vii. Contracts or subcontracts of less than \$7.5 million, provided that, at the time of the award, the business unit of the contractor or subcontractor is not currently performing any CAS-covered contracts or subcontracts valued at \$7.5 million or greater
  - viii. Contracts and subcontracts awarded to a United Kingdom contractor for performance substantially in the United Kingdom, provided that the contractor has filed with the United Kingdom Ministry of Defense a completed disclosure statement that adequately describes its cost accounting practices

- ix. Subcontracts under the North Atlantic Treaty Organization (NATO) Patrol Hydrofoil Missile Ship Acquisition Program to be performed outside the United States by a foreign concern
- x. Contracts and subcontracts to be executed and performed entirely outside the United States, its territories, and possessions

### 3. DCAA Compliance

Contractors must comply with the DCAA Cost Accounting Standards (CAS). Each contractor's accounting system must be standardized and able to separate accounting functions such as timekeeping and accounts payable. This system must be able to address the needs of each type of contract in which the business participates.

Costs must be accumulated by contract to determine their allowability per government regulations. A major part of accounting for costs by contract is the classification of costs as either direct costs or indirect costs. There are also a number of unallowable costs that cannot be charged to federal contracts. FAR Cost Principles Guide can be downloaded. [https://www.dcaa.mil/Content/Documents/FAR\\_Cost\\_Principles\\_Guide.pdf](https://www.dcaa.mil/Content/Documents/FAR_Cost_Principles_Guide.pdf)

- 1) **Timekeeping / Timecard / Timesheet Preparation.** Contractors should establish timekeeping procedures and use an automated or manual timekeeping system. Contractors should also ensure that employees understand that they are personally responsible for:
  - i. Recording their time on a daily basis
  - ii. Recording time on the timecard in ink
  - iii. Correctly distributing time by project numbers, contract number or name, or other identifiers for a particular assignment
  - iv. Changes to the timecard
  - v. Recording all hours worked, whether they are paid or not
  - vi. Signing the timecard at the end of each work period
- 2) **Recommended Timekeeping Policy.** Careless or improper timecard preparation may lead to disciplinary actions under company policies, as well as applicable federal statutes.
- 3) **Labor Charging System.** Unlike other costs, labor is not supported by external documentation or physical evidence to provide an independent check. Contractors must emphasize to their employees that they are responsible for accurately recording time charges. Contractor internal controls over labor charging should meet the following criteria:
  - i. Responsibilities for labor-related activities should be kept separate.
  - ii. Supervisors who are accountable for meeting contract budgets should not be able to initiate employee time charges.

- iii. Procedures must be evident, clear cut and reasonable.
  - iv. Controls must be continually maintained and verified, and violations must be promptly and effectively remedied.
- 4) **Responsibilities for Subcontracts.** The company awarding a CAS-covered subcontract is responsible for securing subcontractor compliance with the CAS. In most cases, compliance audits of CAS-covered subcontracts will be performed by the auditor cognizant of the subcontractor in conjunction with the performance of other regularly scheduled audit assignments. The auditor, to protect the government's interest, must consider all covered work held by the contractor when making CAS-related audits. Subcontracts at locations with no government prime contracts are also subject to audit tests for CAS compliance.
- 5) **Small Businesses and the DCAA.** A contracting officer may request that the DCAA perform an accounting system audit when a contractor submits a proposal for a cost-type contract, is awarded a cost-type contract, or submits a proposal under a firm-fixed-price contract with progress payments. To pass a DCAA pre-award audit, small businesses must have developed a system that is operable, although it does not have to currently be in use. The business must be able to demonstrate this new system to the auditor and be ready to implement the system prior to incurring any costs on the government contract.

#### 4. DCAA Preparation Checklist

The dcaa.org website provides the following checklist to help contractors prepare for pre-award, post-award, and internal control audits.

- 1) **Preparation for Pre-Award Audits.**
- i. Segregation of direct, indirect and unallowable costs
  - ii. Job cost accounting
  - iii. Indirect cost pools and allocation bases
  - iv. Indirect rate computations
  - v. Timekeeping system and labor distribution requirements
  - vi. Unallowable costs
- 2) **Preparation for Post-Award Audits and Internal Control Audits.**
- i. Previously-identified differences
  - ii. Significant changes in management or staff



- iii. Recent guidance or audit program changes
- iv. Assignments with a low number of hours expended and high number of dollars questioned
- v. Assignments with a high number of hours expended and few or no dollars questioned
- vi. New audit areas
- vii. Relationship to GAO high-risk areas or DOD management challenges

### 3) Checklist and Tools

[Pre-Award Accounting System Adequacy Checklist](#)

[Contract Pricing Proposal Adequacy Checklist](#)

[Incurred Cost Submission Adequacy Checklist](#)

[ICE \(Incurred Cost Electronically\) Model](#)

[EZ-Quant Applications](#)

### 4) Briefings and Additional Documentation

\*\* [Information for Contractors Guide](#) \*\*

\*\* [Contract Audit Manual](#) \*\*

[Accounting System Requirements](#)

[Contract Briefs](#)

[Incurred Cost Submissions](#)

[Real-Time Labor Evaluations](#)

[Monitoring Subcontracts](#)

[Provisional Billing Rates](#)

[Public Vouchers](#)

[FAQ for Contracting Officers](#)

[FAQ for Contractors](#)

**5) For Additional Information:**

Headquarters, Defense Contract Audit Agency  
Attn: Operations, Small Business Focal Point  
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