



DCMA Manual 2201-02

Cost Accounting Standards Administration

Office of Primary Responsibility	Negotiation Intelligence and Cost Evaluation Capability Board
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Purpose: This issuance, in accordance with the authority in DoD Directive 5105.64:

- Implements policy established in DCMA Instruction 2201, "Indirect Cost Control"
- Prescribes procedures and responsibilities for the Administration of Cost Accounting Standards

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SECTION 1: GENERAL ISSUANCE INFORMATION

1.1. APPLICABILITY.

This issuance applies to all DCMA activities unless higher-level regulations, policy, guidance, or agreements take precedence.

1.2. POLICY.

This Manual expands on policy established in DCMA Instruction 2201, “Indirect Cost Control,” to assign detailed responsibilities and provide procedures for DCMA Cost Accounting Standards (CAS) administration. A DCMA administrative contracting officer (ACO) assigned as the cognizant federal agency official (CFAO) with responsibility for CAS administration of negotiated contracts and subcontracts must comply with Federal Acquisition Regulation (FAR) Part 30, “Cost Accounting Standards Administration,” policies and procedures in applying the Cost Accounting Standards Board (CASB) rules and regulations (48 Code of Federal Regulations (CFR) Chapter 99 (FAR Appendix)). DCMA’s CAS administration functions will include, but are not limited to:

- a. Verifying applicability of CAS and Disclosure Statement (DS) requirements.
- b. Verifying appropriate CAS clauses are incorporated in CAS-covered contracts during contract receipt and review.
- c. Verifying whether a contract is subject to full CAS or modified CAS and whether a DS is required.
- d. Monitoring whether contractors are consistently following their Cost Accounting Practices (CAPs) under all their CAS-covered contracts.
- e. Ensuring CAPs are disclosed in writing when required.
- f. Ensuring noncompliances and CAP changes are administered equitably and uniformly.
- g. Issuing a contracting officer’s final decision (COFD) stating the agency’s position on any CAS-related contractual issue that cannot be resolved.
- h. Executing the policies and procedures in this Manual in a safe, efficient, effective, and ethical manner within all DCMA workplaces.

1.3. TRACKING AND COORDINATION.

To comply with requirements to maintain contract audit agency system of record of CAS administration actions, DCMA will:

- a. Document the status of CAS coverage and the DS in the DCMA Contract Business Analysis Repository (CBAR). See Resource Page for a link to “Rules for Populating Data into CBAR and for Maintaining the Integrity of the CBAR Database.”

b. Create a record and document all CAS-related submissions, audit memorandums and reports, and all associated contracting officer actions in the agency system(s) of record. See Resource Page for “DS Guidance and Data Entry.”

c. Comply with the notice and determination requirements for the resolution and disposition for CAS-related audits in accordance with (IAW) DCMA Manual (DCMA-MAN) 2201-04, “Contract Audit Follow-Up,” and DoDI 7640.02.

d. Obtain a legal review prior to issuing a determination of CAS noncompliance, negotiating a settlement that includes a demand for payment on a CAP change or CAS noncompliance or issuing a COFD. See the DCMA-MAN 2201-05, “Boards of Review,” Resource Page for detailed guidance for actions requiring a legal review. Promptly seeking assistance from assigned DCMA legal counsel ensures legal adequacy and will ensure that DCMA preserves the Government’s legal right to pursue any potential claim within the 6-year Contract Disputes Act (CDA) statute of limitations. Detailed procedures for issuing and processing demands for payment are provided in DCMA-MAN 2501-10, “Contract Debts.” For detailed procedures on claims, contracting officers should review DCMA-MAN 2501-09, “Contract Claims and Disputes.”

e. Obtain Boards of Review (BoR) recommendations when applicable. The CFAO must obtain appropriate management review of contracting actions before negotiating or taking action to settle an issue, including the use of a BoR when required. Guidance can be found on the DCMA-MAN 2201-05 Resource Page.

1.4. SUMMARY OF CHANGES.

This manual has had substantive changes. Users must review this issuance in its entirety. Substantive changes include:

- Amended Paragraph 3.5.f.(2) and 3.8.b. requiring the ACO to request early and frequent advance awareness from the Defense Contract Audit Agency (DCAA) of CAS noncompliances, so the ACO is prepared to issue the notice of potential noncompliance within 15 calendar days of receiving the audit report
- Made clarifications to Paragraph 3.6.c., “Non-CAP Changes”
- Amended Paragraph 3.8.a. to clarify that noncompliances may be identified as “Less than Material Noncompliance(s)” or as “Material Cost Accounting Standards Noncompliance(s)”
- Added Section 3.10. to address “Less than Material Noncompliance(s)” reported by DCAA to incorporate and cancel PTM 23-002 published on September 12, 2023
- Added Section 3.11., “CAS Cycle Audits – DCAA Compliance Reports with no Adverse Opinion” to incorporate C-Note 22-05 dated February 1, 2022
- Added Section 3.12., “Prohibition on Closing CAS Covered Contracts in Litigation”
- Amended G.1. Definitions to clarify a Desirable Change, Materiality, Non-Reportable Audits and Reportable Audits and the CFR regulation for Required and Unilateral CAP Changes
- Replaced all references to specific tools to either Agency System of Record or repository
- Changed the name of the Cost Accounting Standards Team from Disclosure Statement Team to Specialty Pricing Group, Cost Accounting Standards Team

SECTION 2: RESPONSIBILITIES

2.1. CONTRACT MANAGEMENT OFFICE (CMO) COMMANDER/DIRECTOR, COST AND PRICING REGIONAL COMMAND (CPRC) DIRECTOR, OR SPECIAL PROGRAMS DIRECTOR.

The CMO Commander/Director, CPRC Director, or Special Programs Director must:

- a. Ensure the organizational component performance of CAS administration for all contracts and subcontracts of a business unit under his/her cognizance.
- b. Ensure the ACO promptly seeks legal advice from assigned DCMA legal counsel on any CAS noncompliance issues to ensure legal adequacy and that DCMA preserves the Government's right to pursue any potential claim within the 6-year CDA statute of limitations. (Sections 7101 through 7109 of Title 41, United States Code (U.S.C.), "Contract Disputes Act of 1978;" FAR 33.206(b)). Detailed procedures for issuing and processing demands for payment are provided in DCMA-MAN 2501-10. For detailed procedures on claims, contracting officers should review DCMA-MAN 2501-09.
- c. Ensure compliance with the resolution and disposition requirements for all types of CAS audits IAW DCMA-MAN 2201-04 and DoDI 7640.02.
- d. Ensure Agency systems of record, or other agency designated database tracking records, are created and status maintained for all CAS-related submissions, audit memorandums/reports, and all associated contracting officer actions, or other DCMA designated database tracking system.

2.2. CMO CONTRACTS DIRECTOR, CORPORATE/DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER (CACO/DACO) DIVISION DIRECTOR OR SPECIAL PROGRAMS CACO/DACO TEAM SUPERVISOR.

The CMO Contracts Director, CACO/DACO Division Director, or Special Programs CACO/DACO Team Supervisor must:

- a. Review ACO DS adequacy and compliance determinations to ensure the determination is adequately supported and documented.
- b. Review ACO determinations of contractor CAS compliance or noncompliance to ensure the determination is adequately supported and documented.
- c. Review ACO immateriality determinations to ensure the determination is adequately supported and documented.
- d. Review ACO cost impact on memorandum for record (MFR), pre-negotiation objectives memorandum (PNOM), price negotiation memorandum (PNM), or COFD to ensure the objective or decision is adequately supported and documented.
- e. Ensure compliance with the BoR requirements, when applicable. See DCMA-MAN 2201-05 Resource Page.

- f. Ensure status of CAS coverage and status of the DS are documented in CBAR.
- g. Ensure Agency system of record, or other agency designated database tracking system, are created and status maintained for all CAS-related submissions, audit memorandums/reports, and all associated contracting officer actions.
- h. Ensure compliance with resolution and disposition requirements of CAS-related audit reports are documented in the Agency system of record IAW DCMA-MAN 2201-04 and DoDI 7640.02.
- i. The CACO/DACO Division Director may delegate the above responsibilities, in writing, to the CACO/DACO Division Team Supervisors, as appropriate.

2.3. CFAO, ACO, DACO, OR CACO.

The CFAO within DCMA is the ACO/DACO/CACO, hereinafter referred to as ACO. The ACO must:

- a. Maintain familiarity with CASB rules, regulations, and standards (48 CFR Chapter 99 (FAR Appendix)), as well as FAR Parts 30 and 31, the clauses at FAR 52.230 and this Manual. Request relevant training, as needed.
- b. Assist the Procuring Contracting Officer (PCO) with determinations of contract CAS applicability, type of CAS coverage, and DS requirements.
- c. Verify appropriate CAS clauses are incorporated in CAS-covered contracts during contract receipt and review.
- d. Determine whether there has been a change in a CAP.
- e. Issue a determination on the adequacy of an initial DS, generally within 30 calendar days after receipt of the submission. Issue a determination on compliance of an initial DS after receipt of DCAA's Audit Report indicating the DS is compliant. See FAR 30.202-7(a)(3) and FAR 30.202-7(b)(2).
- f. Perform reviews of DS revisions for adequacy and compliance, issue determinations on the adequacy and compliance of the revision within 60 calendar days after receipt of the submission, and process any CAP changes to the maximum extent feasible. See FAR 30.604.
- g. Issue determinations regarding CAS noncompliances, or the contractor's failure to follow its disclosed or established practices, based upon information provided by the cognizant audit office, or otherwise disclosed. See FAR 30.605 and FAR 30.603-2(c)(2).
- h. Negotiate and resolve the cost impact of CAP changes or CAS noncompliances IAW FAR 30.606(b)(1). If the ACO and the contractor do not agree on the amount of the cost impact, the ACO should issue a COFD IAW FAR 33.211 to unilaterally adjust the contract(s).
- i. Coordinate with assigned legal counsel to ensure resolution and that the Government can assert any claim deriving from CAS noncompliances and cost impacts within the 6-year CDA statute of limitations.

j. Obtain legal review prior to issuing determinations when disagreeing with audit recommendations. See the DCMA-MAN 2201-05 Resource Page for detailed guidance for actions requiring a legal review. Legal review is not required when the auditor provides a written statement of concurrence to the ACO's determination. Send a copy of the DCAA audit in the request for legal review.

k. Document and maintain the status of CAS coverage and status of the DS in CBAR.

l. Create and maintain a current record in the Agency's system of record for all CAS-related activities (e.g., DS submissions, CAS-related audit reports/memorandums, reviews of DS, cost impacts, and ACO final actions), closing the record only after all steps of the process are complete and the submission or issue is negotiated, determined immaterial, or a COFD with included demand for payment is issued per FAR 32.603(a) and FAR 32.604(a)(2). The ACO should close the CAS system record after the final decision based on FAR 30.606(c)(6)(ii) is made and the COFD with demand for payment is sent to the contractor. A demand for payment may be applicable when completing any cost impact (either CAP or N/C) or when issuing a COFD and if applicable, must be forwarded to legal counsel for review.

m. Document the resolution and disposition of CAS-related audit reports in the Agency's system of record IAW DCMA-MAN 2201-04 and DoDI 7640.02.

n. Document in an MFR all applicable positions/determinations as described in this Manual. MFRs are required to be reviewed and concurred by management at the appropriate level IAW Paragraph 2.2. to ensure the position/determination is adequately supported and documented.

o. Obtain legal review of External Restructuring Advanced Agreements and ensure compliance with BoR requirements. See the DCMA-MAN 2201-05 Resource Page for detailed guidance for actions requiring a legal review.

2.4. COST MONITOR OR PRICE/COST ANALYST.

The Cost Monitor or Price/Cost Analyst must:

a. Maintain a familiarity with the CASB rules, regulations, and standards (48 CFR Chapter 99 (FAR Appendix)), as well as FAR Part 30, FAR Part 31 and relevant FAR clauses, and this Manual. Request relevant training, as appropriate.

b. Develop a working knowledge of the DS for use in performing proposal pricing evaluations and cost monitoring, identifying potential noncompliances, and assisting the ACO with DS adequacy and compliance reviews and determinations.

c. Assist the ACO with coordinating timely audit report due dates with the cognizant audit office.

d. Assist the ACO with review and evaluation of contractor cost impact submissions to resolve the cost impact of CAP changes or CAS noncompliances.

2.5. SPECIALTY PRICING GROUP (SPG), CAS TEAM.

When requested by the ACO, the SPG CAS Team must support ACO on CAS issues as follows:

- a. Upon receipt of an ACO written request for assistance, the request will be assigned to a SPG CAS Team member. If assistance is requested but cannot be provided by a mutually agreed to date then the ACO must proceed to complete the review. The SPG CAS Team prioritizes its activities based on government risk and available resources.
- b. The rationale of the SPG CAS Team recommendations or guidance must be included in the communication back to the ACO.

2.6. OFFICE OF GENERAL COUNSEL.

Assigned legal counsel must:

- a. Review determinations of CAS noncompliance, COFDs, Government demands for payment, Government settlement positions, and other ACO determinations, actions, and notifications that address actual or potential contractor liability IAW this Manual and the CAS Process and Decision Review Matrix found on this Manual's Resource Page.
- b. Review all ACO decisions that disagree with audit recommendations unless the ACO receives a written statement from DCAA confirming that DCAA does not have any reservation with the CFAO's decision/determination.
- c. Advise the ACO of the date a potential Government accrual of a claim occurred, assuring protection of the Government's rights, due to a contractor's CAS noncompliance, and whether the CAS noncompliance constituted a continuing CAS noncompliance, and a continuing claim.

SECTION 3: PROCEDURES

3.1. CAS OVERVIEW.

a. CAS.

CAS is a set of 19 rules and standards promulgated by the CASB for use in determining the treatment of costs on negotiated contracts and subcontracts that are not otherwise exempt IAW 48 CFR 9903.201-1(b). 48 CFR Chapter 99 (FAR Appendix) contains the CASB Standards and the preambles. Table 1 provides a list of the current Standards.

Table 1. Cost Accounting Standards

Overall Cost Accounting Matter	
CAS 401	Consistency in Estimating, Accumulating and Reporting Costs
CAS 402	Consistency in Allocating Costs Incurred for the Same Purpose
CAS 405	Accounting for Unallowable Costs
CAS 406	Cost Accounting Period
Classes, Categories or Elements of Cost	
CAS 404	Capitalization of Tangible Assets
CAS 407	Use of Standard Costs for Direct Material and Direct Labor
CAS 408	Accounting for Costs of Compensated Personal Absence
CAS 409	Depreciation of Tangible Capital Assets
CAS 411	Accounting for Acquisition Costs of Materials
CAS 412	Composition & Measurement of Pension Costs
CAS 413	Adjustment & Allocation of Pension Costs
CAS 414	Cost of Money as an Element of the Cost of Facilities Capital
CAS 415	Accounting for the Cost of Deferred Compensation
CAS 416	Accounting for Insurance Costs
CAS 417	Cost of Money as an Element of the Cost of Capital Assets under Construction
Indirect Cost Pools	
CAS 403	Allocation of Home Office Expenses to Segments
CAS 410	Allocation of Business Unit G&A Expenses to Final Cost Objectives
CAS 418	Allocation of Direct and Indirect Costs
CAS 420	Accounting for IR&D and B&P Costs

b. CASB.

CASB is an independent statutorily established (41 U.S.C. §1502) board and function located within the Office of Federal Procurement Policy. The Board has the exclusive authority to make, promulgate, and amend CAS and interpretations designed to achieve uniformity and consistency in the CAPs governing the measurement, assignment, and allocation of costs to contracts with the United States Government.

c. FAR Part 30.

FAR Part 30 describes the policies and procedures for applying the CAS rules and regulations to negotiated contracts and subcontracts. The CAS standards are required for use by certain contractors and subcontractors in estimating, accumulating, and reporting costs in connection with pricing and administration of, and settlement of disputes concerning, all negotiated contract and subcontracts with the United States Government in excess of the Truthful Cost or Pricing Data threshold and not otherwise exempt IAW 48 CFR 9903.201-1(b), as adjusted for inflation. Contractors and subcontractors are required to comply with CAS, disclose their practices in writing, and consistently follow their CAPs. See FAR 30.101. Contracts and subcontracts exempted from the CAS Standards, rules and regulations, include sealed bid contracts and contracts with small business concerns (See 48 CFR 9903.201-1 (FAR Appendix) and Figure 1 for these and other exemptions). The CAS regulations are codified at 48 CFR, Chapter 99 (FAR Appendix). FAR 30.201-4 prescribes the appropriate CAS FAR 52.230 contract clauses.

3.2. CAS ADMINISTRATION.

a. The CAS requirements must, to the maximum extent practicable, be administered by the cognizant Federal agency responsible for a particular contractor organization or location. The cognizant Federal agency should take the lead role in administering the requirements and coordinating CAS administrative actions (48 CFR 9903.201-7, “Cognizant Federal agency responsibilities”).

b. The ACO must perform CAS administration for all contracts and subcontracts of a business unit, even when the PCO retains other administration functions. The ACO must make all CAS-related determinations, as identified in Paragraph 2.3. of this Manual. The ACO should review applicable CAS, CASB rules and regulations, and FAR provisions throughout the process of administering each CAS-related activity.

c. If DCMA is not administering any contracts of a business unit and is not designated as the CFAO, then follow the process for determining CFAO within DCMA-MAN 4502-02, “Workload Acceptance.”

d. The ACO should refer questions and requests for assistance regarding CAS interpretation, implementation, or administration to the cognizant auditor or internal team of advisors (e.g., supervisor, assigned legal counsel, Contractor Insurance and Pension Review (CIPR) team, SPG CAS Team, and other subject matter experts).

(1) The ACO must request audit assistance from the audit servicing agency for review of every initial DS. All initial DSs must be audited for both adequacy and compliance.

(2) The ACO must perform the review of DS revisions for adequacy and compliance but may request assistance from the cognizant audit office or from SPG CAS Team, as appropriate. Examples where assistance may be requested include, but are not limited to, DS revisions of a complex nature or those that involve a major reorganization.

(3) The ACO may request audit or SPG CAS Team assistance for CAS noncompliance and accounting change cost impact reviews, as appropriate. The request for SPG CAS Team assistance should be adequately documented.

(4) If audit or SPG CAS Team assistance is requested for DS revisions or CAS noncompliances but cannot be provided by a mutually agreed to date then the ACO must proceed to complete the review. The SPG CAS Team prioritizes its activities based on government risk and available resources.

(5) The ACO may request assistance from the SPG CAS Team outlying DS concerns, when needed. The request should include the ACO's written summary of the issue(s) on which assistance is desired. The ACO may decide DCAA assistance is necessary. Information, history, and clarifications regarding the DS revision can also be requested of DCAA. See this manual's Resource Page for contact information on the SPG CAS Team.

(6) A DS contains contractor proprietary data. The ACO must coordinate with the assigned legal counsel and the Office of Congressional and Public Affairs on any requests to the Government for release of information contained in a contractor's DS.

(7) The ACO should request assistance from other technical and functional specialists or subject matter experts, as needed.

3.3. VERIFY APPLICABILITY OF CAS TO THE PARTICULAR CONTRACT.

a. Pursuant to Section 1502 of Title 41, U.S.C., CAS are mandatory for use by contractors and subcontractors in certain negotiated contracts with the Federal Government. Pursuant to FAR 30.202-6(a), the PCO is responsible for determining CAS applicability and for inserting the appropriate CAS clauses in the solicitation and contract award. The PCO must ensure that where CAS applies, the offeror complies with all required solicitation certifications and submits any required DS. Under special circumstances, the head of the agency for the procuring contracting activity may waive applicability of CAS for a particular contract or subcontract if the conditions set out in FAR 30.201-5(b) are met. See Defense Federal Acquisition Regulation Supplement (DFARS) 230.201-5, "Waiver," for conditions and requirements applicable to DoD waivers of CAS coverage.

b. There are two types of CAS coverage; full or modified. Figure 1 and Table 2 provide criteria for determining if full or modified CAS coverage applies. Contractors with smaller dollar-value CAS-covered contracts may elect application of the less stringent modified coverage.

(1) FAR solicitation clause 52.230-1 allows offerors to elect modified CAS coverage by checking a box. If an eligible business concern does not claim modified CAS coverage in responding to the solicitation as outlined in FAR 52.230-1, the offeror agrees to be subject to full CAS coverage.

(2) Contracts and subcontracts with foreign concerns are only subject to CAS 401 and CAS 402. See 48 CFR 9903.201-2(e) and FAR 225.003. 48 CFR 9903.201-1(b)(4) exempts contracts and subcontracts with foreign governments or their agents or instrumentalities from all CAS requirements.

Figure 1. CAS Coverage and DS Requirement Determination

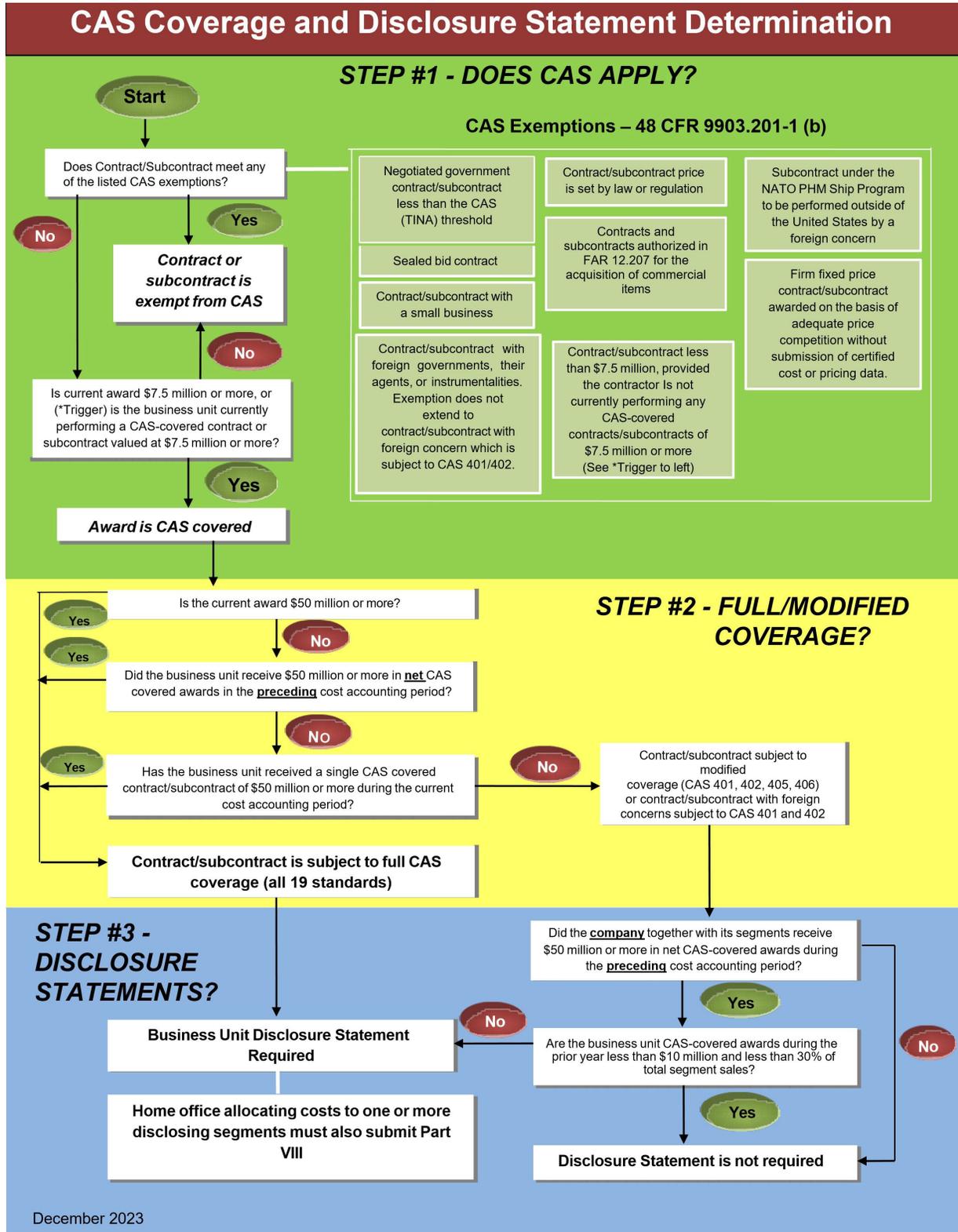


Table 2. CAS Coverage

CAS Coverage (48 CFR 9903.201-1) (See Figure 1)		
Coverage Type	Application	Coverage requires that the business unit:
Full	<p>Required of contractor business units that:</p> <p>Receive a single CAS-covered contract award of \$50 million or more; or</p> <p>Received \$50 million or more in net CAS-covered awards during its most recent cost accounting period.</p> <p>Net awards mean the total value of negotiated CAS-covered prime contract and subcontract awards, including the value of contract options, received during the reporting period minus cancellations, terminations, and other related credit transactions (48 CFR 903.301(a)). Transfers from one business segment to another are considered subcontract awards for the purpose of measuring CAS-covered awards (48 CFR 9903.201-2(d)).</p>	<p>Comply with all Standards that are in effect on the date of contract award and with any Standards that become applicable because of later award of a CAS-covered contract.</p> <p>In addition, the business unit must submit and maintain a DS of its CAPs.</p>
Modified	<p>If the offeror certifies that it is eligible for and elects to use modified coverage, it may be applied to a CAS-covered contract of:</p> <p>Less than \$50 million awarded to a business unit that received less than \$50 million in net CAS-covered awards in the immediately preceding cost accounting period.</p>	<p>Comply with CAS 401, 402, 405, and 406.</p> <p>A contract awarded with modified CAS coverage must remain subject to modified coverage throughout its life regardless of changes in the business unit's CAS status during subsequent cost accounting periods. A disclosure statement may be required.</p>
Foreign Concerns	<p>Contracts and subcontracts with foreign concerns (48 CFR 9903.201-2(e))</p> <p>(48 CFR 9903.201-1(b)(4) exempts contracts and subcontracts with foreign governments, their agents, or instrumentalities from CAS requirements.)</p>	<p>Must comply with CAS 401 and 402. A disclosure statement may be required.</p>

c. The CAS requirements are implemented through inclusion of various CAS clauses in the contract or subcontract, as summarized in Table 3. See FAR 30.201-4 for guidance on prescription of

the appropriate FAR 52.230 clauses. If the appropriate clauses are not included in the contract, the ACO should follow the procedures described in DCMA-MANS 2501-01, “Contract Receipt and Review.”

d. The CAS clauses have mandatory flow down provisions requiring the prime contractor to include the substance of the applicable clauses in all CAS-covered subcontracts at any tier (FAR 52.230- 2(d)). If a prime contract is not subject to CAS, any subcontracts awarded under it will not be subject to CAS because there will be no CAS clauses to “flow down.”

Table 3. CAS Clauses

FAR Clause	Negotiated Contracts Subject To or With
52.230-2, Cost Accounting Standards	Full CAS Coverage
52.230-3, Disclosure and Consistency of Cost Accounting Practices	Modified CAS Coverage (CAS 401, 402, 405, 406)
52.230-4, Disclosure and Consistency of Cost Accounting Practices – Foreign Concerns	Foreign Concerns (non-govt) - Unless Exempt
52.230-5, Cost Accounting Standards – Educational Institution	Educational Institutions
52.230-6, Administration of Cost Accounting Standards	Any Contracts Containing Above Clauses
52.230-7, Proposal Disclosure – Cost Accounting Practice Changes	Contract award results in a CAP change

e. Generally, contract modifications made under the terms and conditions of the contract do not affect its status with respect to CAS applicability. Therefore, if CAS was applicable to the contract, it will apply to the modification. Conversely, if the contract was exempt from CAS, the modification will also be exempt regardless of the amount of the modification. However, if the contract modification adds new work, or adds increased quantities beyond those provided for in a contract option, it must be treated for CAS purposes as if it were a new contract. In this case, if the modification exceeds the threshold, it will be CAS-covered. The ACO should seek advice from the assigned DCMA legal counsel to assist in determining whether a contract modification is in-scope or out-of-scope. Criteria exempting negotiated contracts or subcontracts from CAS coverage can be found in Figure 1.

(1) The contractor must take all steps necessary to ensure CAS compliance in accounting for the work that is the subject of the modification. Costs incurred to support the modification must be segregated from other costs that are not CAS-covered.

(2) Subsequent contract modifications will be subject to CAS coverage if the modification adds work within the scope of an existing CAS-covered contract modification, or the modification adds new, out-of-scope work and, if awarded as a new contract, would be subject to CAS coverage pursuant to 48 CFR 9903.201-1.

f. If CAS coverage and a DS are not required, the contractor is not absolved from complying with FAR/DFARS guidance and applicable regulations which, in some cost principles, incorporate the requirements of individual CAS Standards.

g. If there has been a change to the contractor's CAS status (e.g., no CAS coverage to full or modified CAS coverage; or modified to full CAS coverage) the ACO should prepare an MFR documenting the rationale for the change and upload to CBAR or Agency designated replacement tool. First line supervisor review and concurrence of the MFR is required. Additionally, the ACO should provide a copy of the MFR to DCAA.

3.4. DETERMINE DS SUBMISSION REQUIREMENTS.

a. A DS is a written description of a contractor's CAPs and procedures that relate to the methods or techniques for measuring, assigning, and allocating costs, and is particularly important for understanding how the contractor estimates, accumulates, and reports costs. The contractor is required to submit the DS using Form CASB DS-1, "Cost Accounting Standards Board Disclosure Statement Required by Public Law 100-679" or, for educational institutions, Form CASB DS-2, "Cost Accounting Standards Board Disclosure Statement Required by Public Law 100-679 Educational Institutions." The contractor must provide information on its operations and specific information on the contractor's accounting for specific types of costs in the required forms.

b. 48 CFR 9903.202-1 provides detailed guidance on when a DS is required.

c. Each corporate or other home office, to include all levels of intermediate home offices, which allocates costs to one or more disclosing segments performing CAS-covered contracts, must submit a completed Part VIII of the DS. See reference 48 CFR 9903.202-9 CASB DS-1 for applicable instructions.

d. When a DS is required, it is the PCO's responsibility to ensure an offeror submits a DS. The ACO, however, should verify whether the contractor has submitted the DS or assist the PCO in obtaining it, if necessary.

e. IAW 48 CFR 9903.202-1(e) and FAR 30.202-8, foreign contractors and subcontractors who are required to submit a DS may, in lieu of filing a Form CASB DS-1, make disclosure by using a disclosure form prescribed by an agency of its Government, provided that the CASB determines that the information disclosed by that means will satisfy the objectives of 41 U.S.C. §1502. The use of alternative forms has been approved for the contractors of the following countries: Canada, Federal Republic of Germany, and the United Kingdom.

3.5. INITIAL DS ADEQUACY AND COMPLIANCE REVIEW.

a. Contract Award.

At the time of award of a contract that has been determined to be CAS- covered, the contractor may already have disclosed CAPs and submitted a DS. If not, submission of an initial DS is required as stated in Paragraph 3.4. The cognizant audit office is responsible for conducting an adequacy and compliance audit of the contractor's initial DS and of revisions that constitute complete updates of the contractor's DS. The ACO is responsible for issuing the written determinations to the contractor. If there is any question whether the submission is a complete update, the ACO should discuss with the contractor and the auditor. The review and ACO determinations on the initial DS is a two-step process. The first step is for the ACO to review and determine the adequacy of the DS. The second step is for the ACO to determine whether the disclosed CAPs comply with CAS and FAR Part 31.

b. Audit.

Upon receipt of a contractor's initial DS, the ACO must submit a request for audit to the cognizant audit office. The audit office reviews the initial DS to ascertain whether it is current, accurate, and complete. DCAA will not issue an audit report on the adequacy of an initial DS but will issue a memorandum on whether the contractor's initial DS submission is adequate and acceptable to perform an audit of the disclosed practices for compliance with CAS and FAR Part 31. Once the ACO affirms a determination of adequacy on the initial DS, based on the memorandum and discussion between the parties, DCAA will review and report on whether the initial DS complies with CAS and FAR Part 31. The ACO must issue the written adequacy determination before DCAA can release the audit report on compliance.

c. Agency's system of record.

The ACO must also ensure that a record is created in the Agency's system of record for the initial DS and must document and maintain current the status of review and other actions in the system(s). Guidance for entering and updating information the Agency's system(s) of record are on the Resource Page. Records must not be deleted upon closure.

(1) The ACO must coordinate with assigned legal counsel to establish the estimated accrual date for a Government claim. The accrual date is different for initial and revised DSs versus CAS noncompliances. Generally, the accrual date is the effective date of the initial or revised DS. CAS noncompliance should be coordinated with assigned legal counsel. The accrual date must be entered in the Agency system of record.

(2) Once an accrual date has been entered in the Agency's system of record for a Government claim, DO NOT change the date, regardless of the number of contractor reissuances in trying to satisfy the adequacy requirement. DO NOT close or delete the record if the DS is determined to be inadequate; the same record should just be updated when a corrected DS is submitted. The claim accrual date will not change unless the ACO coordinates with the assigned DCMA legal counsel and DCMA legal counsel recommends a revised accrual date.

d. DS Adequacy.

Upon receipt and review of the memorandum or advice from DCAA documenting its recommendations on the adequacy of the DS, the ACO should discuss any adequacy issues with the contractor to facilitate the correction of the adequacy issue(s). Upon such resolution, the ACO must request the contractor to resubmit the initial DS that incorporates the adequacy corrections which replaces the original initial DS in its entirety. Generally, pursuant to FAR 30.202-7(a)(3), the CFAO should furnish the contractor notification of adequacy within 30 calendar days after receiving the DS. The ACO determination of adequacy should be based upon the initial DS submission as replaced by the revised initial submission. To be considered adequate, a DS must be current, accurate, and complete.

(1) If the contractor is unwilling to resolve adequacy issues as identified in the review of the initial DS on a timely basis, the ACO should issue a written determination that the initial DS is not adequate.

(2) If the initial DS is adequate, the ACO must document the position/determination on the adequacy of the initial DS with the MFR. The ACO must issue a written determination that the initial DS is adequate and provide a copy to the auditor, as well as the PCO if the DS submission was triggered by a proposal. The notice must comply with the requirements of FAR 30.202-7(a)(2).

(3) The ACO should use the recommended template located on this Manual's Resource Page and issue a determination of adequacy of an initial DS Statement Submission.

e. DS Compliance.

Once the ACO has concluded that the contractor's initial or revised and updated DS is adequate, the ACO will request the cognizant audit office to conduct a detailed compliance review.

(1) The auditor's review will ascertain whether or not the disclosed practices comply with all applicable CAS and FAR Part 31 requirements and report audit findings to the ACO.

(2) The ACO, with assistance from the Cost Monitor or Price/Cost Analyst, must review the audit report and document the ACO's position/determination on the compliance of the initial DS with the MFR.

f. DS Compliance MFR.

The supporting MFR must provide an affirmative statement that the ACO agreed or disagreed with each of the audit and functional specialist findings. In documenting the ACO's decision, the MFR must include the appropriate level of rationale to support and/or resolve each audit or technical specialist recommendation. The rationale must demonstrate the ACO considered all appropriate laws, regulations, and DCMA issuances related to the issues raised. The ACO will then make a determination regarding the initial DS compliance with CAS and FAR Part 31. Noncompliances with FAR Part 31 must be processed separately.

(1) Compliant DS.

If the initial DS is compliant, the ACO must notify the contractor of the determination in writing, with copies to the cognizant audit office and the affected PCO if the DS submission was triggered by a proposal. The ACO should use the recommended template located on this Manual's Resource Page for ACO's "Determination of Compliance of an Initial Disclosure Statement Submission."

(2) Noncompliant DS.

If the ACO agrees with the auditor and determines the initial DS is noncompliant with CAS and/or FAR Part 31, the ACO must take action regarding the noncompliance IAW FAR 30.605(b) and issue a notice of potential noncompliance within 15 calendar days of receiving the audit report. Pursuant to FAR 30.202-7(b)(2), the ACO should issue a notice to the contractor requesting a revised DS that corrects the CAS noncompliance. See Paragraph 3.8. on Processing CAS Noncompliances. Noncompliances with FAR Part 31 must be processed separately. The ACO should request early and frequent advance awareness from DCAA, so he/she is prepared to issue the notice of potential noncompliance within 15 calendar days of receiving the audit report.

g. Management Review.

Prior to the ACO issuing an adequacy or compliance determination, the determination letter, along with all supporting documentation, including the supporting MFR, must be reviewed and concurred with by management to ensure the determination is adequately supported and documented. Management review and concurrence is performed by the CMO Contracts Director or Director of the CACO/DACO Division. The Director of the CACO/DACO Division may delegate management review and concurrence no lower than the team supervisor.

h. ACO Audit Follow up.

The ACO must resolve and disposition any audit reports on the DS compliance upon issuance of the written determination to the contractor IAW DCMA-MAN 2201-04 and DoDI 7640.02.

i. Updating CBAR (or other Agency designated tracking system).

The ACO must document and maintain the status of CAS coverage and status of the DS in CBAR or other Agency designated tracking system.

j. Subcontractor DS.

Adequacy and compliance determinations of the subcontractor DS must be made by the cognizant subcontractor ACO and be provided to the prime or next higher-tier subcontractor ACO. The higher-tier ACO must not change the determination of the lower-tier ACO (FAR 30.202-8).

3.6. REVISED DS ADEQUACY AND COMPLIANCE REVIEW.

a. Amended or revised DS.

The contractor is free to amend or revise its DS at any time, including changing its disclosed or established CAP. However, the contractor must submit a revised DS to the ACO whenever it makes a change to its DS. The ACO is responsible for processing any revisions to the DS that result in CAP changes and resolving the associated cost impact to affected CAS-covered contracts and subcontracts. Pursuant to FAR 30.603 and FAR 52.230-6, the contractor shall provide notification of any revision to the DS at least 60 calendar days prior to implementation.

b. ACO Receipt of DS Revision.

Upon receipt of a revised DS, the ACO must review the revisions and may request a meeting with the contractor to walk through the revisions and invite the cognizant auditor or functional specialist to attend. The goal of the walk-through meeting is for the Government to obtain an understanding of what is being revised and why. The ACO must determine if the revision includes a CAP change(s) and if so, is it due to a correction of a noncompliance, supersedes or is otherwise related to a previous revision. Individual revisions to a DS can consist of both CAP changes and non-CAP changes. See Paragraph 3.7. for the definition of a CAP change and the CAP change process.

c. Non-CAP Changes.

Non-CAP changes may be administrative in nature and/or enhance the description of the contractor's CAPs. Three types of DS revisions do not constitute CAP Changes.

(1) Non-Substantive Revisions (formerly referred to as Administrative Changes).

These are revisions such as name and address changes, pagination updates, punctuation changes, or similar changes that do not affect the description of a CAP. These enhancements do not alter the assignment, allocation, or measurement of cost as defined at 48 CFR 9903.302-1, and therefore are not CAP changes. The ACO will review the DS to ensure that the changes made are purely administrative in nature and are not enhancements of existing descriptions of CAPs. If purely administrative, the ACO will acknowledge the submission by providing a notification letter to the contractor but will not provide a determination of adequacy or compliance as there have been no enhancements or changes in description of CAPs and the DS was previously determined adequate and compliant. The ACO should use the recommended notification template (ACO Acknowledgement of DS Non CAP (formerly Admin Changes)) located on this Manual's Resource Page.

(2) Enhancements.

Description enhancements may be provided by the contractor at any time. These include changes in CAP descriptions with the goal of improving the adequacy of descriptions of accounting practices which have already been determined adequate and compliant. These enhancements do not alter the assignment, allocation, or measurement of cost as defined at 48 CFR 9903.302-2, and therefore are not CAP changes. An ACO adequacy determination of enhanced descriptions must be made after consideration of the enhanced description. An adequacy determination template is provided on the Resource Page. A determination of compliance is not considered necessary as the CAP has not changed and has already been determined compliant.

(3) Exempted Revisions.

(a) Certain DS revisions that affect a CAP are exempt from the definition of a CAP change pursuant to 48 CFR 9903.302-2, including the initial adoption of a CAP, partial or total elimination of a function/cost, or revision of a CAP for a previously immaterial function/cost. These DS revisions are exempt from the definition of a CAP change and are also exempt from the requirement to provide a General Dollar Magnitude (GDM); however, a determination of adequacy and compliance of certain exempted revisions (e.g., initial adoptions) may be necessary.

(b) Many DSs include a combination of the above and the templates may be tailored to fit the situation. It is not necessary to provide two separate determinations.

d. Agency System of Record.

The ACO must also ensure that a record of the DS revision documenting the CAP change is created in the Agency system of record upon receipt of the submission and must document and maintain the current status of review and other actions in the Agency system of record. A single Agency record is maintained and updated throughout the entire business process (e.g., one record per DS effective date).

e. ACO Determination.

The ACO must review the description of the DS revision for adequacy and compliance and issue a written determination to the contractor within 60 calendar days of receipt of the submission so that issues may be resolved prior to implementation of any changes, to the maximum extent feasible. The ACO may request assistance in reviewing the revision from team advisors, or the cognizant audit office, as determined appropriate. The ACO does not test the contractor's implementation of the DS language as part of the compliance determination. Testing of the contractor's actual practices is performed by the cognizant auditor as part of other routine audits and by the ACO, Cost Monitor, or Price/Cost Analyst as part of routine activities.

(1) Adequacy of DS Revision.

A DS revision is adequate if it is current, accurate, and complete. Reviews for adequacy are based solely on the revised descriptions in the DS revision itself, unless the contractor refers to other documents, such as policies, procedures, accounting manuals, or desk procedures. The DS logic tools, "Conformity of Disclosure Statement with General Instructions," and the "Internal Consistency of Disclosed Practices in a Disclosure Statement" from this Manual's Resource Page, may be used to aid the ACO in determining adequacy of the revised DS. The adequacy determination made by the ACO on a revision is made only on revised descriptions, not on the DS in its entirety.

(a) A DS is current if it describes the CAPs that the contractor intends to follow for estimating, accumulating, and reporting costs associated with CAS-covered contracts. The DS, therefore, could possibly include practices that are currently in use; will be instituted at some future specified date; will be followed with the incurrence of a new cost; or a combination of these.

(b) A DS is accurate if it correctly, clearly, and distinctly describes the actual CAPs the prime contractor or subcontractor uses or intends to use on contracts subject to 41 U.S.C. §1502.

(c) A DS is complete if it includes all significant CAPs the contractor intends to use and provides enough information for the Government to fully understand the CAPs described.

(2) Inadequacy of DS Revision.

(a) If the description of the change is inadequate, the ACO should discuss the inadequacies with the contractor. If the contractor is not willing to correct the inadequacies based on the ACO's verbal request, the ACO must notify the contractor in writing that the revision is not adequate and request a revised description of the new CAP by a specified date. If an inadequacy does not preclude a compliance review, the ACO should proceed with the compliance review, concurrent with waiting for the contractor to correct the inadequacy.

(b) If the ACO notifies the contractor in writing that a revision under consideration is inadequate, the ACO should not change the CBAR status to "Inadequate," unless the contracting officer withdraws the initial determination of adequacy. This will disrupt and delay normal procurement processes and such action should not be taken unless it is based on substantive issues. Action to withdraw the determination should not be taken unless the issue is material and the contractor will not make the revision.

(3) Compliance.

A DS revision is compliant if the CAPs described in the revision comply with all applicable CAS and FAR Part 31. While actual practices are not tested by the ACO as part of the compliance review, the ACO should not ignore available information that indicates there could be a compliance issue and should request assistance, as appropriate, from the cognizant auditor or internal team advisors (supervisor, assigned legal counsel, CIPR team, SPG CAS Team, and other subject matter experts). The compliance determination made by the ACO on a revision is made only on descriptions of revised CAPs, not on the DS in its entirety.

(4) SPG CAS Team and Audit Services.

See Paragraph 3.2.d.(5) of this Manual for SPG CAS Team assistance request requirements. Generally, the ACO will seek assistance from the SPG CAS Team if needed. If the issue is of a highly complex nature, the ACO may request the cognizant audit office to review the revised practices for the DS revision.

(5) MFR.

Upon completion of the adequacy and compliance review, the ACO must prepare a supporting MFR to file in the Agency's approved system of record and in compliance with approved taxonomy. MFRs are required to be reviewed and concurred by management at the appropriate level IAW Paragraph 2.2. to ensure the position/determination is adequately supported and documented. If an audit report has been issued, the MFR must contain an affirmative statement that the ACO agreed or disagreed with each audit recommendation and other technical specialist findings and include sound rationale to support and/or resolve each audit or technical specialist recommendation. The rationale must demonstrate that the ACO has considered all relevant laws, regulations, and DCMA issuances related to the issues raised.

(6) Adequacy and Compliance Determination.

If a DS revision is both adequate and compliant, the ACO must notify the contractor in writing, using the ACO Determination of Adequacy and Compliance letter template from the Resource Page and request the contractor to submit a cost impact proposal if the revision included a CAP change(s). Prior to requesting a cost impact proposal, the ACO must review the contractor's written statement and supporting rationale that the cost impact of the change is immaterial. Request the advice of the auditor as needed. See Paragraph 3.7. for processing CAP changes.

(7) DS Revision Noncompliance.

If the described change is noncompliant and the change was not yet implemented, the ACO should discuss the noncompliance with the contractor. If the contractor is not willing to correct the noncompliance based on the ACO's verbal request or the change has already been implemented, the ACO must notify the contractor in writing that, the CAP will be determined noncompliant and will be processed accordingly. See Paragraph 3.8. for Processing CAS Noncompliances. If the described change is noncompliant and the cost impact is immaterial, pursuant to FAR 30.605(b)(4), the ACO must inform the contractor in writing that the change is noncompliant, and: (A) The noncompliance should be corrected; and (B) If the noncompliance is not corrected, the Government reserves the right

to make appropriate contract adjustments should the noncompliance become material in the future. The ACO should periodically request data from the contractor to evaluate whether the cost impact has become material.

(8) Materiality Determination.

See Paragraph 3.9.1. for guidance regarding materiality determinations. If the cost impact is immaterial, the ACO must notify the contractor in writing and conclude the cost impact process with no contract adjustments. The ACO will provide the auditor with a copy, if applicable, and close the action in the Agency system of record. Materiality determinations should not be made until the CAP change has been determined to be adequate and compliant/noncompliant. The CMO Contracts Director or CACO/DACO Division Director, CPRC CACO/DACO Team Supervisor, or Special Programs Cost and Pricing CACO/DACO Team Supervisor must review and concur with the immateriality determination to ensure it is adequately supported and documented prior to the ACO issuing the determination.

f. Order of Review.

Normally the ACO should review DS revisions in sequential order. In circumstances where DS revision reviews cannot be completed in sequential order, the ACO should consider interrelationships between the revision being reviewed and previous or subsequent revisions. Determination letters in such circumstances must be carefully qualified to state that previous revisions not yet reviewed should not be deemed adequate or compliant. The ACO should encourage the contractor to number revisions, and corrections or supplements to revisions, in a logical manner that facilitates documentation and review of the DS (Ex: Revision 3, corrected or supplemented by 3a, and 3b if necessary, and so on).

g. Supporting Documentation.

ACOs should use discretion in determining the extent of supporting documentation required to convey the rationale and sound business judgment of their determination of adequacy and compliance (e.g., MFRs, peer/supervisory reviews, legal review). ACOs should consider the complexity, high-risk, controversial, or precedent-setting nature of the contracting action when making decisions on the extent of supporting documentation required and request assistance from the team of advisors (See Paragraph 3.2.d.).

h. Management Review.

Prior to the ACO issuing an adequacy or compliance determination, the determination, along with all supporting documentation which will include the supporting MFR, must be reviewed and concurred with by management. Management review and concurrence is performed by the CMO Contracts Director or Director of the CACO/DACO Division. The Director of the CACO/DACO Division may delegate management review and concurrence no lower than the team supervisor. The reviewer must ensure the determination is adequately supported and documented.

i. Agency System of Record and CBAR Tracking.

(1) The ACO must resolve and disposition any audit reports associated with the DS revision (e.g., DS adequacy and compliance reviews, CAS noncompliance audits, cost impact reviews) IAW

DCMA-MAN 2201-04 and DoDI 7640.02. When DS Revisions are determined to be adequate and/or compliant, the status of DS Adequacy and Compliance determinations must be updated in CBAR or Agency designated replacement tool. To avoid confusing the buying activities with different Adequacy and Compliance dates in CBAR, use the latest determination date of the most recent DS Revision.

(2) If the ACO notifies the contractor in writing that a revision under consideration is inadequate, the ACO should not change the CBAR status to “Inadequate” unless the contracting officer withdraws the initial determination of adequacy. This will disrupt and delay normal procurement processes and such action should not be taken unless it is based on substantive issues. Action to withdraw the determination should not be taken unless the issue is material and the contractor will not make the revision.

j. Interest Calculation.

Daily compound interest applies from the date of overpayment to the date of repayment for unilateral CAP changes. The ACO must separately identify interest on any increased cost paid, in the aggregate, as a result of the contractor’s unilateral CAP change. The interest is computed, compounded daily, from the date of overpayment by the Government, using the interest rate in 26 U.S.C. §6621(a)(2), IAW 41 U.S.C. 1502(f) and 41 USC 1502(f). Use the “DCMA Spreadsheet to Compute Interest” found on the Resource Page. See Section 3.7., Table 4 below.

3.7. CHANGES TO DISCLOSED OR ESTABLISHED CAPS.

a. CAP Change Notification.

Pursuant to FAR 30.603-1(c)(2), not less than 60 calendar days (or other mutually agreed to date) before implementation of a CAP change, the contractor must submit to the ACO a description of the CAP change. Pursuant to FAR 30.603-2(c), the contractor is required to submit rationale to the ACO to support any contractor written statement that the cost impact of the change is immaterial. If the contractor implements a CAP change without submitting the required notice, pursuant to FAR 30.603-2(c)(2), the ACO may determine the change a failure to follow disclosed or established CAP consistently and process as a noncompliance. See Paragraph 3.8. for information on processing noncompliances.

b. CAP Definition.

(1) Pursuant to 48 CFR 9903.302-1, a CAP is defined as any disclosed or established accounting method or technique used for the allocation of cost-to-cost objectives, assignment of cost-to-cost accounting periods, or measurement of cost. The following are exceptions to CAP changes:

- Initial adoption for the first time a cost is incurred or a function is created
- Partial or total elimination of a cost or cost of a function
- Revision of a CAP for a cost which previously had been immaterial

(2) Organizational changes may result in CAP changes. Assistance is available from the SPG CAS Team or DCAA in determining whether a CAP change has been made.

c. Agency’s system of record.

The ACO must also ensure that a record of the DS revision documenting the CAP change is created in the Agency’s system of record upon receipt of the submission and must document and maintain the current status of review and other actions in the record. See Paragraph 3.5.c.

d. Application and Types of CAP Changes.

FAR 30.603 discusses the three types of CAP changes; required, unilateral and desirable. These changes and the associated cost adjustments are summarized in Tables 4 and 5. Corrections to CAS noncompliances are not to be treated as CAP changes as defined at FAR 30.603.

Table 4. Application of Accounting Practice Changes & Adjustments

Type of Accounting Change	Full Coverage Contract Clause/ Provision 9903.201-4(a)	Modified Coverage Contract Clause/ Provision 9903.201-4(c)	Description	Adjustment/ Cost Impact
Required	(a)(4)(i)	(a)(3)(i)	Required to comply with a new or modified Standard issued by the CAS Board, or to remain in compliance with any Standard when award of a contract would require an offeror to change its cost accounting practices. It also includes a prospective change to a disclosed or established practice when the CFAO determines that the former practice was in compliance with applicable CAS and the change is necessary to remain in compliance.	Equitable Adjustment - the ACO must negotiate an equitable adjustment (upward or downward) on one or more existing CAS-covered contracts, for any material cost impact.
Unilateral	(a)(f)(ii)	(a)(3)(ii)	The change is unilateral unless the ACO determines the change is desirable to the Government.	No increased costs in the aggregate paid by US Govt. plus daily compound interest.
Desirable	(a)(4)(iii)	(a)(3)(ii)	The Contractor makes a unilateral change, but the ACO determines that the change is desirable and not detrimental to the Government.	Equitable Adjustment – see above for Required change.
A correction of a CAS noncompliance IS NOT treated as a CAP change. However, for purposes of cost adjustment, continuation of the clause provision includes the following:				
CAS Noncompliance	(a)(5)	(a)(4)	The contractor's disclosed (DS) or established accounting practices are in noncompliance with CAS, or the contractor fails to follow its disclosed practices.	No increased costs in the aggregate paid by US Govt. Recovery of increased costs plus daily compound interest.

Table 5. Types of Accounting Practice Changes & Adjustments

Type of Accounting Change	Provision 48 CFR 9903.201-6	Description	Adjustment / Cost Impact
Required	(a)(2)	A change in cost accounting practice that a contractor is required to make to comply with applicable Standards, modifications, or interpretations thereto, that subsequently become applicable to an existing CAS-covered contract due to the receipt of another CAS-covered contract or subcontract. It also includes a prospective change to a disclosed or established cost accounting practice when the cognizant Federal agency official determines that the former practice was in compliance with applicable CAS and the change is necessary for the contractor to remain in compliance.	Equitable Adjustment - the ACO must negotiate an equitable adjustment (upward or downward) on one or more existing CAS- covered contracts, for any material cost impact.
Unilateral	(b)(2)	A change in cost accounting practice from one compliant practice to another compliant practice that a contractor with a CAS-covered contract(s) elects to make that has not been deemed desirable by the cognizant Federal agency official and for which the Government will pay no aggregate increased costs.	No increased costs in the aggregate paid by US Govt. plus daily compound interest.
Desirable	(c)(2)	The Contractor makes a unilateral change, but the ACO determines that the change is desirable and not detrimental to the Government.	Equitable Adjustment – see above for Required change.

(1) Required Accounting Change.

A required change is a CAP change that a contractor is required to make to comply with applicable standards, modifications, or interpretations thereto, that subsequently become applicable to an existing CAS-covered contract due to the receipt of another CAS-covered contract or subcontract. It also includes a prospective change to a disclosed or established CAP when the ACO determines that former practice was in compliance with applicable CAS and the change is necessary for the contractor to remain in compliance. This type of change may require an equitable adjustment but only to those CAS-covered contracts priced and awarded before the effective date of the new or modified standard. See FAR 30.603-1 for requirements for pricing proposals, DS submission, and to provide support of immaterial cost impact.

(a) FAR 52.230-7 requires offerors to check “yes” in its proposal if the contract award will result in a required or unilateral change in CAP, including unilateral changes requested to be desirable changes. If contract award would require a change, the offeror must submit a description of the change as pricing support for the proposal.

(b) When a contractor elects to implement a required change to comply with a new or modified standard prior to the applicability date of the standard, the ACO must administer the change as a unilateral change (see Paragraph 3.7.d.(2)). Pursuant to FAR 30.603-1(d)(2), contractors will not

receive an equitable adjustment unless the ACO determines that the unilateral change is a desirable change.

(2) Unilateral change.

A unilateral change is a CAP change from one compliant practice to another compliant practice that a contractor elects to make that has not been deemed desirable by the ACO. Pursuant to FAR 30.603-2(a)(1), the Government shall not pay any increased cost, in the aggregate, because of a unilateral change. Accordingly, correction of CAS noncompliance(s) by definition cannot be classified as CAP changes as defined at FAR 30.603-2. For unilateral changes, the ACO must limit upward contract price adjustments to affected contracts to the amount of downward contract price adjustments of other affected contracts (e.g., no net upward contract price adjustment must be permitted). (See 48 CFR 9903.201-6(b)(3)).

(3) Desirable change.

A desirable change is a unilateral CAP change that the ACO finds is desirable and not detrimental to the Government, and is, therefore, not subject to the no-increased-cost-prohibition provisions of CAS-covered contracts affected by the change. The ACO's finding need not be based solely on the cost impact that a proposed practice change will have on a contractor's or subcontractor's current CAS-covered contracts. The CAP change may be determined to be desirable even though existing contract prices and/or cost allowances may increase. The determination that the CAP change is desirable should be made on a case-by-case basis. See FAR 30.603-2(b)

(a) The ACO must promptly evaluate a contractor's request for a desirable change as soon as practical and notify the contractor in writing whether the change is desirable, or the request is denied. If the change is determined desirable, the ACO must negotiate an equitable adjustment. Associated management actions that also have an impact on contract costs should be considered when negotiating adjustments See 48 CFR 9903.201-6(c)(3). If the ACO determines the CAP change is unilateral but not a desirable change, the change must be considered and processed as a unilateral change for which the Government will not pay increased costs, in the aggregate.

(b) Some factors to consider in making a desirability determination (FAR 30.603- 2(b)(3)) include, but are not limited to whether:

1. The contractor must change the CAPs to remain compliant with the provisions of FAR Part 31.

2. The contractor is initiating management actions directly associated with the change that will result in cost savings for segments with CAS-covered contracts and subcontracts over a period for which forward pricing rates are developed, or for five contractor fiscal years, whichever is shorter, and the cost savings are reflected in the forward pricing rates. CAP change must be integral to such savings (for example, the savings could not have occurred but for the CAP change).

3. Funds are available if the determination would result in an upward adjustment of contract cost or price.

e. Processing CAP Changes.

After receiving the contractor's notification of a revision to the DS, pursuant to FAR 30.604, the ACO should first review the proposed change concurrently for adequacy and compliance. See Paragraph 3.6. of the Manual, revised DS Adequacy and Compliance Review. If the description is both adequate and compliant, and if the ACO determines the revision is a unilateral CAP change, the ACO must request the contractor to submit a GDM proposal unless the ACO determines the cost impact is immaterial. If the cost impact is immaterial, the ACO must notify the contractor in writing and conclude the cost impact process with no contract adjustments with a copy to the auditor. See Paragraph 3.9.1. of this Manual regarding the materiality determination.

(1) The GDM is intended to provide an estimated overall impact of the change on affected CAS-covered contracts and subcontracts that were awarded based on the pre-change CAP and assist the ACO in determining whether individual contract price or cost adjustments are required. The contractor may, if it chooses, submit a Detailed Cost Impact (DCI) proposal in lieu of a GDM proposal. See FAR 30.604 for full descriptions of GDM and DCI requirements relating to CAP changes. Additionally, when requested by the ACO, the contractor must identify all affected CAS-covered contracts and subcontracts. See FAR 52.230-6(d).

(2) FAR 30.604(d)-(h) prescribes the detailed requirements of the GDM and cost impact calculation for a unilateral change. See the template located on this Manual's Resource Page for ACO Determination of Adequacy and Compliance (Updated for GDM Prescriptive List).

(3) IAW FAR 30.604, the ACO must promptly evaluate the GDM proposal. The ACO should request assistance with evaluating the GDM proposal from the cognizant auditor or internal team of advisors, (e.g., supervisor, assigned legal counsel, CIPR team, SPG CAS Team, and other subject matter experts), as appropriate. If an audit is requested, the ACO should obtain a commitment date, monitor the status, and update the Agency's system of record throughout the process.

(4) Unless the ACO determined the cost impact is immaterial, the ACO must negotiate and resolve the cost impact. See Paragraphs 3.7., 3.8., and 3.9. of the Manual and FAR 30.606. The contractor must agree to appropriate contract adjustments IAW FAR 52.230-2(a)(5) and FAR 52.230-3(a)(4). If the contractor fails to agree, the ACO may unilaterally adjust the contractor's CAS-covered contracts. The inability to reach a negotiated settlement of the cost impact does not deprive the Government of any remedy. Under the CAS clause in the contract, the contractor undertakes an affirmative obligation, among other obligations, to comply with all CAS in effect.

(5) Prior to making any contract price or cost adjustments as a result of a unilateral change, IAW FAR 30.605, the ACO must determine that the contemplated contract price or cost adjustments will protect the Government from the payment of the estimated increased costs, and the net effect of the contemplated adjustments will not result in the recovery of more than the increased costs to the Government, in the aggregate. ACOs will not double-count the same increased costs shifted between flexibly priced and fixed-price contracts or combine decreased costs calculated for fixed-priced contracts with increased cost calculated for flexibly priced contracts. See the Resource Page for the "CAS Aggregation Methodology due to Unilateral Cost Accounting Practice Changes" Job Aid.

f. Remedies for Contractor Failure to Submit.

IAW FAR 30.604(i), if the contractor fails to submit the CAP change description or required GDM or DCI proposal within the time specified by the ACO, the ACO must:

(1) Estimate the GDM of the cost impact on affected CAS-covered contracts and subcontracts with the assistance of the auditor and other team advisors (as appropriate)

(2) Take one or both of the following actions:

(a) Withhold an amount not to exceed 10 percent of each subsequent payment on the contractor's CAS-covered contracts (up to the estimated GDM of the cost impact) until the contractor furnishes the required information. If the CFAO decides not to implement the withhold, the rationale supporting the decision to not withhold must be reviewed by the CMO Contracts Director, CACO/DACO Division Director, CPRC CACO/DACO Team Supervisor, or Special Programs Cost and Pricing CACO/DACO Team Supervisor.

(b) Issue a COFD and unilaterally adjust a single contract, or several but not all contracts, or all contracts, or any other suitable method, by the estimated amount of the cost impact. See FAR 30.604(i), Remedies and FAR 30.606(a)(2).

g. Materiality Determination.

The ACO will review each CAP change for materiality using the criteria in 48 CFR 9903.305 before making an overall materiality decision. See Paragraph 3.9.1. for guidance regarding materiality determinations. If the cost impact is immaterial, the ACO must notify the contractor in writing and conclude the cost-impact process with no contract adjustments. The ACO will provide the auditor with a copy, if applicable, and close the action in the Agency's system of record. Materiality determinations should not be made until the CAP change has been determined to be adequate and compliant/noncompliant. The CMO Contracts Director or CACO/DACO Division Director, CPRC CACO/DACO Team Supervisor, or Special Programs Team Supervisor must review and concur with the immateriality determination to ensure it is adequately supported and documented prior to the ACO issuing the determination.

h. Retroactive Changes.

FAR 30.603-2(d) requires the contractor to request unilateral changes be retroactive and provide supporting rationale. The CAS clauses FAR 52.230-2 and 52.230-3 require the contractor to apply any CAP changes prospectively only to subject contracts. The ACO determines and approves the retroactive unilateral change in writing but only back to the beginning of the contractor's fiscal year in which the request for the change is made. In such cases, the change would then be applied prospectively from the ACO-approved effective date of the change.

i. External Restructuring Activities.

The requirements for contract price and cost adjustments do not apply to compliant CAP changes that are directly associated with external restructuring activities, and that are subject to and meet the requirements of 10 U.S.C. §2325. However, FAR 30.603-2€ states that the disclosure requirements in

FAR 52.230-6(b) must be followed. Consult with local legal counsel and/or the SPG CAS Team prior to requesting GDMs for CAP changes in connection with External Restructuring. Guidance on negotiating advance agreements resulting from external restructuring costs may be found in DFARS 231.205-70, PGI 231.205-70, and the “External Restructuring Process Guidebook” located on the Resource Page.

3.8. PROCESSING NONCOMPLIANCES.

a. Noncompliance Identified.

A contractor’s failure to comply with CAS may be identified during the ACO or auditor review of the DS or at any time during the performance of a CAS-covered contract or subcontract. A noncompliance can also be identified by cognizant audit services, functional specialists, or other contracts personnel. The ACO must review any alleged noncompliance to determine what action(s) may be necessary. Noncompliances identified by DCAA may be classified as:

(1) “Less than material noncompliance(s)” also referred to as “noncompliance that warrants the attention of the ACO.” These are typically reported as an Appendix to a DCAA audit report or as a separate memorandum. ACO instructions on processing alleged “less than material noncompliance(s)” identified by DCAA will be added IAW Paragraph 3.10. A “less than material noncompliance” is different than an “immaterial noncompliance,” which has been reported by DCAA in the body of the audit report and determined immaterial by the ACO based on FAR 30.605(b)(4) described in paragraph 3.8.e.(1). An Immaterial Noncompliance is based on an ACO’s determination IAW FAR 30.605(b)(4) that a noncompliance does not have a material cost impact.

(2) “Material noncompliances” (Also considered significant noncompliances) included in the body of a DCAA audit report with an audit opinion paragraph stating the contractor is noncompliant with CAS. These noncompliances are typically included in audit reports using the following DCAA 5-digit activity codes 19100, 19200, and 19400.

b. Notice of Potential Noncompliance.

Within 15 calendar days of receipt of a report of alleged noncompliance from an auditor, the ACO must either notify the auditor in writing that the ACO disagrees with the alleged noncompliance or issue a written notice of potential noncompliance to the contractor and provide a copy to the auditor. The ACO should request early and frequent advance awareness from DCAA, so they are prepared to issue the notice of potential noncompliance within 15 calendar days of receiving the audit report. A copy of the notice to auditor or contractor must be maintained in the contract file as well as the ACO’s MFR supporting the issuance of the notice of potential noncompliance. See FAR 30.605(b)(1). The ACO must notify the contractor of the potential noncompliance, including the exact nature of the noncompliance and requesting response within 60 calendar days. The contractor must concur with the notice or provide reasons why the existing practices are in compliance and must submit its rationale to support any contractor-written statement that the cost impact of the noncompliance is immaterial. See FAR 30.605(b)(2). Issuance of the notice of potential noncompliance or notification of ACO’s disagreement sent to the auditor satisfies the resolution requirement in contract audit agency system of record.

c. Agency's system of record.

The ACO must also ensure that a record of the alleged CAS noncompliance review or audit report is created in the Agency's system and must document and maintain current the status of review in the Agency's system of record. See Paragraph 3.5.c.

d. Review of Contractor Response.

The ACO and Cost Monitor or Price/Cost Analyst, with assistance from the cognizant audit office and other team advisors as appropriate (See Paragraph 3.2.d.), must review the contractor's response and prepare a MFR in preparation for issuing a determination of CAS compliance or noncompliance. The MFR will contain an affirmative statement that the ACO agreed or disagreed with each audit recommendation and other technical specialist findings and include sound rationale to support and/or resolve each audit or technical specialist recommendation. The rationale must demonstrate that the ACO has considered all relevant laws, regulations, and DCMA issuances related to the issues raised.

e. ACO Determination.

The ACO must make a written determination of compliance or noncompliance consistent with the content requirements for a determination set out in FAR 1.704 that fully describes the basis for the determination and provide a copy of the determination to the contractor and auditor. The ACO should use the recommended template located on this Manual's Resource Page to issue a CAS Noncompliance letter, which should be modified for the circumstances. The ACO must negotiate and resolve the cost impact associated with a noncompliance determination.

(1) Immaterial Noncompliance.

If the ACO makes a noncompliance determination and the cost impact is immaterial (See Paragraph 3.9.1., regarding materiality determination), the ACO must proceed pursuant to FAR 30.605(b)(4). The ACO must inform the contractor in writing that the noncompliance should be corrected and if the noncompliance is not corrected, the Government reserves the right to make appropriate contract adjustments should the noncompliance become material in the future. The ACO concludes the cost impact process with no contract adjustments. The Agency system of record can be closed but not deleted.

(2) Noncompliance.

Pursuant to FAR 30.605(b)(4) and c through h, if the ACO makes a noncompliance determination that is not accompanied by an immateriality determination, the written determination must request the contractor to submit a description of any CAP change required to correct the noncompliance within 60 calendar days. If the proposed description is found to be inadequate, request a revised description of the CAP. Once the CAS noncompliance determination has been made, the ACO must request that the contractor submit a GDM proposal within 60 calendar days. The contractor may submit a DCI proposal in lieu of a GDM proposal but is only required to submit a DCI if the ACO determines the GDM is insufficient to resolve the cost impact. If the CAP change is determined to be CAS non-compliant, the ACO must notify the contractor that if the described CAP is implemented the ACO will determine the described CAP to be CAS non-compliant and process it accordingly.

(3) Legal Effect of a Determination of Noncompliance.

The U.S. Court of Federal Claims and the Armed Services Board of Contract Appeals have each ruled that a Contracting Officer-issued determination of CAS noncompliance, which was not determined to be immaterial, and includes a demand for the contractor to change its noncompliant practice, constitutes a Government claim which is appealable by the contractor. A determination of noncompliance does not, however, constitute a Government claim for a sum certain under the CDA, so the CDA statute of limitations continues to run for the cost impact of the noncompliance until the contracting office issues a COFD specifying the cost impact. This precedent creates a challenge for the Government, because including a sum certain with appeal rights in a determination of CAS noncompliance forces the contractor to appeal the decision within a short timeframe, sending the parties into immediate litigation. Such a practice is also inconsistent with FAR 30.604 and 30.605, which includes a process whereby the Government and contractor will agree on the cost impact of the noncompliance after the determination of noncompliance is issued, rather than immediately litigating the dispute. Therefore, in most cases, when a determination of CAS noncompliance is issued to a contractor, and the ACO and contractor cannot subsequently agree on a cost impact, it must be followed up with a timely-issued COFD asserting a Government claim and debt demand for any cost impact of the CAS noncompliance. If, however, the CDA statute of limitations is close to expiring at the time the contracting officer issues the determination of noncompliance, the contracting officer should consult with legal counsel to determine whether to also include a COFD with appeal rights and a sum certain in the determination of noncompliance.

f. GDM and DCI Requirements.

See FAR 30.605 for full descriptions of GDM and DCI requirements relating to CAS noncompliances. When requested by the ACO, the cost impact proposal must include all open and closed affected CAS-covered contracts and subcontracts regardless of the fiscal year in which the costs were incurred. Pursuant to FAR 30.605(h)(1) and (2) the cost impact may be combined for all affected CAS-covered contracts and subcontracts for all segments if the effect of a change results in costs flowing between those segments. Affected contracts do not include future contracts. In addition, the ACO should ensure the contractor corrects the noncompliant practice prior to exercising any future options on current contracts.

g. Cost Impact Evaluation.

IAW FAR 30.605(e), the ACO must promptly evaluate the GDM proposal. The ACO should request assistance with evaluating the GDM proposal from the cognizant auditor or internal team of advisors, as appropriate. See Paragraph 3.2.d(5). The ACO must negotiate and resolve the cost impact. See FAR 30.606.

h. Remedies.

If the contractor does not correct the noncompliance or submit the CAP change description or a required GDM/DCI proposal within the time specified by the ACO, the ACO can issue a COFD (See Paragraph 3.8.j.) or may apply a withhold not to exceed 10 percent of estimated GDM IAW the procedures at FAR 30.605(i).

i. Management and Legal Counsel Review.

The written noncompliance determination must be coordinated with and reviewed by assigned local legal counsel to include the Contract Law Group (CLG) Steering Committee and Contract Dispute Resolution Center (CDRC) IAW DCMA-MAN 2501-09 and appropriate management, prior to issuance to the contractor. The ACO must allow a minimum of 60 days for the multiple legal reviews. Assigned local counsel will coordinate the additional reviews with the CLG and CDRC. Management review and concurrence is performed by the CMO Contracts Director or Director of the CACO/DACO Division. The Director of the CACO/DACO Division may delegate management review and concurrence no lower than the team supervisor. Management review must ensure the determination is adequately supported and documented. Promptly seeking assistance from assigned DCMA legal counsel ensures legal adequacy and will ensure that DCMA preserves its legal right to pursue any potential Government claim within the 6-year CDA statute of limitations. Where the CAS noncompliance was a continuing practice, assigned counsel will determine whether the practice constituted a continuing CAS noncompliance for a claim.

j. Contract Cost or Price Adjustments.

Prior to making any contract price or cost adjustments under FAR 52.230-2, FAR 52.230-3, or FAR 52.230-6, the ACO must determine that:

- The contemplated contract price and cost adjustments will protect the Government from paying increased costs, in the aggregate.
- The net effect of the adjustments being made will not result in the recovery of more than the increased costs to the Government, in the aggregate.

k. Interest.

Per FAR 52.230-2(a)(5), the contractor shall agree to an adjustment in contract price or cost allowance if the contractor or subcontractor fails to comply with an applicable CAS or to follow any CAP consistently and such failure results in increased cost to the Government. Such adjustment must provide for recovery of the increased costs together with interest. The ACO must separately identify interest on any increased cost paid, in the aggregate, as a result of a CAS noncompliance or the contractor's unilateral CAP change. The interest is computed, compounded daily, from the date of overpayment by the Government, using the interest rate in 26 U.S.C. §6621(a)(2), IAW 41 U.S.C. 1502(f), and FAR 30.605(g). Use the "DCMA Spreadsheet to Compute Interest" found on the Resource Page.

l. Subcontract Noncompliance.

A Government claim for CAS noncompliance of a subcontractor cannot be asserted directly against the subcontractor because there is no privity of contract between the subcontractor and the Government. In the case of a subcontractor CAS noncompliance, any Government claim must be asserted against the relevant prime contractor; the Government's remedy for a subcontractor's CAS noncompliance is to adjust the price or cost allowance of the prime contract. If a subcontractor refuses to submit a GDM or DCI proposal, remedies are made at the prime contractor level.

m. FAR Part 31 Noncompliances.

Noncompliances that only pertain to FAR Contract Cost Principles should be resolved IAW FAR Part 31.

n. Agency's System of Record for Tracking.

The ACO must disposition CAS noncompliance audit reports in the Agency's system of record upon issuing a determination of compliance/noncompliance IAW DCMA-MAN 2201-04 and DoDI 7640.02.

3.9. RESOLVING COST IMPACTS OF CAP CHANGES AND CAS NONCOMPLIANCES.

a. Increased Costs to the Government.

CAP changes and/or CAS noncompliances can result in increased costs to the Government. The Government should pay increased costs only in limited circumstances: equitable adjustments related to a required accounting change or a unilateral change determined to be desirable See Paragraph 3.7. In all other cases, the Government should be reimbursed for any material overpayment related to a unilateral CAP change or a CAS noncompliance including interest compounded daily. Cost impacts identify these increased costs. The ACO must coordinate with the affected contracting officers before negotiating and resolving a cost impact when the estimated cost impact on any of their contracts is at least \$100,000. However, pursuant to FAR 30.606(a), the ACO has the sole authority for negotiating and resolving the cost impact.

b. Cost Impact Proposal.

A cost impact proposal, GDM or DCI, is required for all CAP changes and CAS noncompliances unless a determination of immateriality is made. See Paragraph 3.9.k. regarding materiality determination. The contractor must also identify all affected CAS-covered contracts and subcontracts when requested by the ACO. See FAR 30.604 and 30.605 for full descriptions of GDM and DCI requirements relating to CAP changes and CAS noncompliances. The contractor is required to provide a cost impact proposal or CAP descriptions by the date specified by the ACO or request an extension. If the contractor does not provide the required CAP change descriptions or adequate cost impact proposals, the ACO, with cognizant audit or SPG CAS Team assistance as appropriate, must estimate the GDM of the cost impact (often referred to as a Rough Order of Magnitude) on affected CAS-covered contracts and apply the remedies prescribed at FAR 30.604(i) and Paragraph 3.8.h. of the Manual.

c. Cost Impact Resolution.

If there are no negotiations, an MFR may be prepared in lieu of a PNOM to document the cost impact resolution. If there are negotiations, the ACO must negotiate and resolve cost impacts on behalf of all Government agencies with impacted contracts. The ACO will prepare a PNOM in preparation for and a PNM at the conclusion of negotiations. The ACO must send copies to the auditor and affected contracting officers. The ACO may request the assistance of the Cost Monitor, Price/Cost Analyst, and other functional specialists to develop a negotiation plan, if necessary. The ACO should use the recommended templates located on this Manual's Resource Page for CAS-related

documentation.

d. Resolution Methods.

Pursuant to FAR 30.606(a)(2), the ACO may resolve a cost impact attributed to a change in CAP or a noncompliance by adjusting a single contract, several but not all contracts, all contracts, or any other suitable method, including the issuance of a COFD and demand for payment.

(1) The ACO must adhere to the restrictions on the combining of cost impacts of different types of changes and/or noncompliances and other requirements prescribed by FAR 30.606(a) when resolving cost impacts.

(2) The ACO must follow the provisions set forth in FAR 30.606(c) when selecting and adjusting contracts.

(3) Pursuant to FAR 30.606(d), the ACO may use alternate method(s) instead of adjusting contracts to resolve the cost impact, provided the Government will not pay more, in the aggregate, than it would be paid if the CFAO did not use the alternate method and contracting parties agree on the alternate method.

(4) Whatever form of contract adjustment is selected by the ACO to be used to effectuate an adjustment, it must be timely claimed by the ACO.

e. PNOM Preparation.

The ACO must prepare a PNOM in preparation for negotiation and resolving a cost impact resulting from a CAP change or a CAS noncompliance. The PNOM must:

(1) Provide an affirmative statement that the ACO agrees or disagrees with each audit and technical specialist finding and include sound rationale to support or resolve each audit or technical specialist recommendation. The rationale must demonstrate the ACO considered all appropriate laws, regulations, and DCMA issuances related to the issues raised. The ACO must also document any preliminary deliberations or material disagreements and proper resolution regarding settlement issues.

(2) Be reviewed and concurred with by management to ensure the negotiation position is adequately supported and documented. Management review and concurrence is performed by the CMO Contracts Director or Director of the CACO/DACO Division. The Director of the CACO/DACO Division may delegate management review and concurrence no lower than the team supervisor.

(3) PNOM may be subject to a DCMA BoR if the CAS issue(s) is(are) identified in the DCMA-MAN 2201-05 matrix.

f. PNM Preparation.

Upon negotiation completion, the CFAO must prepare a PNM and make contract price adjustments, or any other suitable methodology, to resolve the cost impact IAW FAR 30.606. The terms should be memorialized in an agreement signed by the ACO and the contractor. The ACO should also issue a demand for payment to the contractor IAW FAR 32.604(a)(2).

(1) The PNM must include documentation of any deliberations, material disagreements, and proper resolution of settlement issues.

(2) The PNM must adequately document the outcome of the negotiation.

(3) The PNM must be reviewed and concurred with by management to ensure the negotiation is adequately supported and documented. Management review and concurrence is performed by the CMO Contracts Director or Director of the CACO/DACO Division. The Director of the CACO/DACO Division may delegate management review and concurrence no lower than the team supervisor.

g. Unsuccessful Negotiation(s).

If negotiations are not successful, the ACO must issue a COFD with coordination of assigned legal counsel IAW FAR 33.211. Additionally, as required by FAR 30.606 (c)(6)(ii), the ACO should unilaterally act by adjusting a single contract, several but not all contracts, all contracts, or some other suitable method to recover the estimated amount of the cost impact. IAW DCMA MAN 2501-10, the ACO must forward a copy of the COFD and evidence of the contractor's receipt of the final decision to the auditor, Defense Finance and Accounting Service, and DCMA CDRC.

h. Tolling Agreements.

One potential tool that can be used by the Government and a contractor to protect the interests of both parties against the premature running of the 6-year CDA statute of limitations is a procedural tolling agreement. The tolling agreement is entered into by both parties prior to the expiration of the 6-year CDA statute of limitations to suspend the imposition of the statutory time bar for a specified time. This means that the specified period in the tolling agreement is excluded when determining whether the Government's claim is time-barred under the CDA statute of limitations. In appropriate cases, an ACO's use of a procedural tolling agreement will be in the Government's best interest. See the Resource Page for additional guidance.

i. Review by Assigned Legal Counsel.

The ACO must coordinate with assigned legal counsel to ensure adequacy of the claim and that the Government can pursue any claims resulting from cost impacts within the CDA Statute of Limitations. Coordination must include assigned DCMA legal counsel review of determinations of CAS noncompliances, agreements on cost impacts, demands for payment, and COFDs, to ensure proper statement and settlement of a claim by the Government. For the aforementioned actions, the ACO must allow a minimum of 60 calendar days for assigned local legal counsel and CLG Steering Committee/CDRC review.

j. Agency's System of Record Tracking.

Upon settlement of the cost impact or issuance of the COFD, the ACO must disposition any associated cost impact audit reports in the Agency's system of record IAW DCMA-MAN 2201-04 and DoDI 7640.02. The ACO should close the audit system record after the settlement is reached or a demand for payment is sent to the contractor.

k. Materiality Determination.

A materiality determination of a cost impact may be made before a GDM has been submitted if sufficient cost information is available. If the cost impact does not result in harm to the Government (i.e., either no increased costs or decreased costs), the ACO is not required to individually address each of the criteria IAW 48 CFR 9903.305. However, if the cost impact results in material or immaterial (increased) cost, the ACO must make a written determination that the cost impact resulting from the CAP change or CAS noncompliance is material or immaterial based on the materiality criteria below:

(1) Materiality determinations (FAR 30.602) must be made individually for each CAP change and CAS Noncompliance that result in increased cost to the Government and documented using the criteria (a) through (f) below in 48 CFR 9903.305 which includes:

(a) The absolute dollar amount involved. The larger the dollar amount, the more likely it will be material.

(b) The amount of contract cost compared with the amount under consideration. The larger the proportion of the amount under consideration to contract cost, the more likely it is to be material.

(c) The relationship between a cost item and a cost objective. Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect costs, will normally have more impact than the same amount of indirect costs.

(d) The impact on Government funding. Changes in accounting treatment will have more impact if they influence the distribution of costs between Government and non-Government cost objectives than if all cost objectives have Government financial support.

(e) The cumulative impact of individually immaterial items. Consider whether such impacts tend to offset one another or tend to be in the same direction and accumulate into a material amount.

(f) The cost of administrative processing of the price adjustment modification. If the cost to process adjustments exceeds the amount to be recovered, it is less likely that the amount will be material.

(2) Management must review immateriality determinations to ensure they are adequately supported and documented prior to the ACO issuing the determination. Management review and concurrence is performed by the CMO Contracts Director or Director of the CACO/DACO Division. The Director of the CACO/DACO Division may delegate management review and concurrence no lower than the team supervisor.

l. Issuance of COFD/Demand for Payment.

ACOs must ensure compliance with DCMA-MAN 2501-10 to include the Demand Letter Worksheet and “DFAS Contract Debt System (DCDS) Submission Checklist.”

3.10. LESS THAN MATERIAL NONCOMPLIANCE(S).

a. DCAA has an obligation under Generally Accepted Government Auditing Standards under Paragraph 7.45., “Reporting on Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements or Instances of Fraud,” to communicate, in writing, to the ACO alleged “less than material” noncompliance(s) with CAS requirements if the noncompliance could become significant in the future. These alleged “less than material” noncompliance(s) are described as “less than material” but warrant the attention of those charged with governance. They do not affect the audit opinion contained in the body of the audit report. These alleged “less than material” noncompliance(s) have not risen to the level of a reportable noncompliance and do not trigger the 15-day notice and determination requirements described at FAR Subpart 30.605(b); however, they should still be addressed timely.

b. The following table illustrates the communication of “less than material” noncompliance(s) by DCAA to the ACO:

DCAA Audit Report Opinion	Reporting Vehicle for Less than Material Noncompliance(s)
Contractor complied in all material respects with CAS (and FAR).	Separate memorandum to ACO identifying “Noncompliance that Warrants the Attention of the Administrative Contracting Officer”
Contractor is noncompliant with CAS (and FAR). DCAA Audit Report identifies significant noncompliance(s) in the body of the report.	Appendix to the Noncompliance Audit Report identifying “Noncompliance that Warrants the Attention of the Administrative Contracting Officer”

c. DCAA’s two methods of reporting alleged “less than material” noncompliance(s) are dependent on their overall audit opinion. If other reportable noncompliance(s) are described in the body of the audit report, DCAA will include alleged “less than material” noncompliance(s) as an Appendix to the Audit Report as described in Paragraph 3.8.a.(1). However, if there are no other reportable noncompliance(s) in the body of the audit report resulting in a DCAA audit opinion that the company was compliant in all material respects, alleged “less than material” noncompliance(s) will be issued in a separate memorandum. Irrespective of the method of transmitting the alleged “less than material” noncompliance(s) the ACO must perform the following steps:

(1) Obtain an understanding of the alleged “less than material” noncompliance(s) from DCAA, including the nature of the noncompliance(s), and the level of detail and sufficiency of evidential matter obtained during the audit to support the position that the practice is noncompliant. This may be based on discussions with DCAA.

If the ACO does not agree that DCAA has obtained sufficient evidential matter to support its allegation of “less than material” noncompliance(s), the ACO should request additional audit effort from DCAA to support its position before the ACO makes a decision. If DCAA is unable to provide sufficient evidential matter within a reasonable amount of time (5 working days) the ACO should document that the alleged “less than material” noncompliance(s) is not adequately supported in a MFR, and no further action should be taken.

(2) Review DCAA's quantitative and qualitative supporting documentation to arrive at its position that the alleged noncompliance(s) is "less than material" but has the potential to become material.

If the ACO does not agree that there is a "less than material" noncompliance(s), the disagreement must be discussed with DCAA, and conclusions documented in the file. The ACO should consider obtaining advice from the functional specialist and/or local counsel. If necessary, follow DCMA-MAN 2201-05 procedures for disagreements with DCAA.

(3) If the ACO agrees with the alleged "less than material" noncompliance(s) and agrees that the noncompliance(s) has the potential to become material, ACO should issue a letter to the contractor (the contractor template letter is available on the Resource Page) advising the contractor that DCAA identified an alleged "less than material" noncompliance(s) and the audit agency has been requested to monitor the alleged noncompliance(s) to determine whether the alleged "less than material" noncompliance(s) becomes material. After notifying DCAA via letter to continue monitoring (the DCAA template letter is available on the Resource Page), the contracting officer will not maintain follow-up on alleged "less than material" noncompliance(s). Documentation should be filed with the DCAA audit report in the Agency's official records storage location.

(a) If the ACO agrees with the alleged noncompliance(s) but disagrees with DCAA that the alleged noncompliance(s) has the potential to become material, a letter to the contractor is not required. The ACO's conclusions must be documented in an MFR to disposition the memorandum issued by DCAA. The MFR should be filed with the DCAA report and/or memorandum in the Agency's official records storage location. The ACO should consider obtaining advice from the functional specialist and/or local counsel as needed. The disagreement with findings must be communicated to DCAA. Follow DCMA-MAN 2201-05 procedures for disagreements with DCAA.

(b) If the ACO agrees with the alleged noncompliance(s) but considers it material rather than "less than material", the ACO must follow the process described in FAR 30.605 and Section 3.8. "Processing Noncompliances."

(4) The result of the ACO review of the alleged "less than material" noncompliance(s), as well as a copy of the letter to the contractor, may be included with the MFR in support of the disposition of the noncompliance report; however, because "less than material" noncompliance(s) have not risen to the level of a reportable finding by DCAA, they should not delay the closure of the reportable noncompliance in the Agency system of record. After notifying DCAA via letter to continue monitoring, the contracting officer will not maintain follow-up on alleged "less than material" noncompliance(s).

d. Except for ACO disagreement with the alleged noncompliance or disagreement that the alleged "less than material" noncompliance(s) has the potential to become material, the ACO should send a letter to DCAA (template letter available on the Resource Page) requesting that DCAA continue to monitor and notify the ACO when "less than material" noncompliance(s) becomes material.

3.11. CAS CYCLE AUDITS - DCAA COMPLIANCE REPORTS WITH NO ADVERSE OPINION

a. CAS cycle audits are intended to provide for the proper planning, performance, and reporting on the contractor's compliance with each CAS standard.

b. If a DCAA audit report is received that opines that the contractor “complied in all material respects” with the standard reviewed, the ACO should use the prescribed template letter located on the Resource Page (Templates Section) to transmit a copy of the audit report to the contractor. This template does not provide a determination of compliance from the ACO but instead transmits DCAA’s report to the contractor.

3.12. PROHIBITION ON CLOSING CAS COVERED CONTRACTS IN LITIGATION

The ACO may settle the final indirect cost rates. However, when a Contractor has an outstanding CAS noncompliance determination, the Government must not close out any CAS-covered contracts until the dispute is resolved. An exception exists when the parties are in litigation over the dispute and the contractor is willing to stipulate in the litigation proceedings to the specific dollar amount of the cost increase to the Government resulting from the noncompliance or change, including the impact on the contracts that both the contractor and the Government would like to close and agree any cost increase to the Government will be paid by check or through an adjustment to the remaining open contract(s). Only then may ACO close most of the affected contracts as long as a representative contract (or small number of contracts) with the appropriate contract clauses for the litigation remain open. The ACO should work through their local counsel and the assigned trial attorney from the CDRC to obtain a stipulation agreement from the contractor. The ACO must notify other assigned ACOs and/or PCOs in writing documenting which representative contract(s) that must remain open. See DCMA-MAN 2501-07 Contract Closeout.

SECTION 4: RETENTION OF RECORDS

4.1. REQUIREMENT TO ESTABLISH FILES.

a. The CMO Commander/Director, CACO/DACO Division Director, or DCMA Special Programs DACO supervisor must ensure that files are established and contain the official contract records for actions taken regarding DS, CAS Noncompliances, and Cost Impacts. The ACO must follow the DCMA Records Management and Retention policy and procedures as identified under DCMA-MAN 4501-04, Volume 1, "Records and Information Management Program." The DCMA Records Management policy provides guidance for the requirement to establish files containing the official records of all contractual actions as they relate to DS, CAS Noncompliances, and Cost Impacts IAW FAR 4.801(a).

b. The documentation in the file must, IAW FAR 4.801(b), be sufficient to constitute a complete history of the transaction for the purposes of:

(1) Providing a complete background as a basis for informed decisions at each step in the analysis process.

(2) Supporting actions taken.

(3) Providing information for reviews and investigations.

(4) Furnishing essential facts in the event of litigation or congressional inquiries.

c. The examples of the records normally contained in contract files, if applicable, are listed in FAR 4.803.

d. ACO files should include documents supporting reviews, negotiation positions, and determinations to include Adequacy and Compliance review of initial and revised DS, determinations regarding CAS Noncompliances, PNOM/PNM for Cost Impacts of CAP changes or CAS Noncompliances, and COFDs. Additionally, the file will include any MFRs relating to DS reviews, management and legal reviews, contractor responses, change in contractor's CAS status, and any other conditions deemed necessary. The ACO will update and continually maintain the file.

4.2. STORAGE, HANDLING, AND DISPOSAL.

Reference the DCMA Records Management and Retention policy and procedures identified under DCMA-MAN 4501-04, Volume 1, and the DCMA-MAN 4501-04, Volume 2, "Records Retention Schedule." Retention of file documentation is the responsibility of the ACO.

4.3. RECORDS MANAGEMENT SYSTEM.

The DCMA Records Management and Retention Policy and Procedures as identified under DCMA-MAN 4501-04, Volume 1, provides an orderly system for organizing records for filing and eventual disposition. The responsibility for maintaining historical documentation of transactions that occur during a work process rests primarily with the functional specialist executing that process. The ACO and all functional specialists will store official contract files in the approved Agency document

repository. Documents that would normally be filed in hardcopy folders, as referenced in the FAR, will be uploaded to the Agency-approved document repository after final approval of the action. ACOs and functional specialists will properly categorize documents for electronic retrieval and records retention purposes using specific metadata when uploading documents into the document repository.

4.4. PROTECTING CLASSIFIED AND CONTROLLED UNCLASSIFIED INFORMATION (CUI).

Protecting information is critical and integral when conducting the processes associated with this Manual. DCMA personnel are responsible for protecting classified information and correctly marking documents that contain CUI entrusted to them. DCMA personnel must take prudent steps to ensure final disposition of classified and CUI per DCMA and DoD policy. These procedures vary based on the type, access, and nature of the material involved. Refer to DCMA-MAN 3301-08, “Information Security,” for guidance in the control, transmission, destruction, and storage of such material.

GLOSSARY

G.1. ABBREVIATIONS AND ACRONYMS.

ACO	administrative contracting officer
BoR	Boards of Review
CACO	Corporate Administrative Contracting Officer
CAFU	Contract Audit Follow Up
CAP	Cost Accounting Practice
CAS	Cost Accounting Standards
CASB	Cost Accounting Standards Board
CASB DS-1	Cost Accounting Standards Board Disclosure Statement Required by Public Law 100-679 (Form)
CASB DS-2	Cost Accounting Standards Board Disclosure Statement Required by Public Law 100-679 Educational Institution (Form)
CBAR	Contract Business Analysis Repository
CDA	Contract Disputes Act (known as Disputes Statute IAW FAR Subpart 33.2)
CDRC	Contract Dispute Resolution Center
CFAO	cognizant federal agency official
CFR	Code of Federal Regulations
CIPR	Contractor Insurance and Pension Review
CLG	Contract Law Group
CMO	Contract Management Office
COFD	contracting officer's final decision
CPRC	Cost and Pricing Regional Command
CUI	Controlled Unclassified Information
DACO	Divisional Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DCI	Detailed Cost Impact
DCMA-INST	DCMA Instruction
DCMA-MAN	DCMA Manual
DFARS	Defense Federal Acquisition Regulation Supplement
DS	Disclosure Statement
FAR	Federal Acquisition Regulation
GDM	General Dollar Magnitude
IAW	in accordance with
MFR	memorandum for record
PCO	Procuring Contracting Officer
PNM	price negotiation memorandum

PNOM	pre-negotiation objectives memorandum
SPG CAS	Specialty Pricing Group, Cost Accounting Standards
U.S.C.	United States Code

GLOSSARY

G.2. DEFINITIONS.

TERM	DEFINITION
Affected CAS-Covered Contract Or Subcontract	(FAR 30.001). Contract or subcontract subject to CAS rules and regulations for which a contractor or subcontractor used one CAP to estimate costs and a changed CAP to accumulate and report costs under the contract or subcontract; or used a noncompliant practice for purposes of estimating or accumulating and reporting costs under the contract or subcontract.
Calendar Day	A calendar day is defined as any 24-hour period between Sunday through Saturday to include U.S. Public holidays and weekends.
CAP	(48 CFR 9903.302-1). A CAP is defined as any disclosed or established accounting method or technique which is used for allocation of cost-to-cost objectives, assignment of cost-to-cost accounting periods, or measurement of cost.
CFAO	(FAR 30.001). Contracting officer assigned by the cognizant Federal agency to administer CAS.
Desirable Change	(48 CFR 9903.201-6(c)(2)). The Contractor makes a unilateral change, but the ACO determines that the change is desirable and not detrimental to the Government. (It is a compliant change to a contractor's established or disclosed CAPs that the CFAO finds is desirable and not detrimental to the Government and is, therefore, not subject to the no-increased-cost prohibition provisions of CAS-covered contracts and subcontracts affected by the change).
Detailed Cost Impact (DCI) Proposal	(FAR 30.604 regarding CAP changes and FAR 30.605 regarding CAS noncompliances). A proposal that calculates the cost impact including all affected CAS-covered contracts and subcontracts regardless of their status (open or closed) or the fiscal year(s) in which the costs are incurred (whether or not the final indirect rates have been established).
Disclosure Statement (DS)	(48 CFR 9903.202-1, 48 CFR 9903.202-5). A written description of a contractor's CAPs and procedures. The statement is required to be submitted using a Form CASB DS-1 or CASB DS-2 for educational institutions.
External Restructuring Activities	(DFARS 231.205-70). Restructuring activities occurring after a business combination that affect the operations of companies not previously under common ownership or control. They do not include restructuring activities occurring after a business

combination that affect the operations of only one of the companies not previously under common ownership or control, or, when there has been no business combination, restructuring activities undertaken within one company. External restructuring activities are a direct outgrowth of a business combination. They normally will be initiated within 3 years of the business combination.

GDM Proposal

(FAR 30.604 regarding CAP changes and FAR 30.605 regarding CAS noncompliances). Provides information on the estimated overall impact of a change in CAP on affected CAS-covered contracts and subcontracts that were awarded based on the previous CAP.

Materiality

Materiality is a key accounting principle that determines whether a discrepancy, such as an omission or misstatement, would impact a reasonable user's decision-making. If it would, the information is material. If the information is insignificant or irrelevant, it is said to be immaterial. (48 CFR 9903.305) In determining whether amounts of cost are material or immaterial, the following criteria shall be considered where appropriate; no one criterion is necessarily determinative:

- (1) The absolute dollar amount involved. The larger the dollar amount, the more likely that it will be material.
- (2) The amount of contract cost compared with the amount under consideration. The larger the proportion of the amount under consideration to contract cost, the more likely it is to be material.
- (3) The relationship between a cost item and a cost objective. Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect costs, will normally have more impact than the same amount of indirect costs.
- (4) The impact on Government funding. Changes in accounting treatment will have more impact if they influence the distribution of costs between Government and non-Government cost objectives than if all cost objectives have Government financial support.
- (5) The cumulative impact of individually immaterial items. It is appropriate to consider whether such impacts:
 - a. Tend to offset one another, or
 - b. Tend to be in the same direction and hence to accumulate into a material amount.
- (6) The cost of administrative processing of the price adjustment modification shall be considered. If the cost to process exceeds the amount to be recovered, it is less likely the amount will be material.

Noncompliance	(FAR 30.001). A failure in estimating, accumulating, or reporting costs to comply with applicable CAS or consistently follow disclosed or established CAPs.
Non-Reportable Audits.	(DCAA Contract Audit Manual 1-605.2c) The Contract Audit Manual defines non-reportable contract audits as: <ol style="list-style-type: none">(1) assist audits, including subcontractor audits,(2) auditor-determined final indirect rates where the auditor and contractor agree on the questioned costs and DCAA does not identify questioned costs subject to penalty, or when DCAA audits and does not identify any questioned costs, or when DCAA recommends an upward adjustment (negative amounts are not reportable audits) and(3) any other audit reports not specifically identified as reportable in the Instruction.
Reportable Audits	(DCAA Contract Audit Manual 1-605.2b) The Contract Audit Manual defines reportable contract audits as: <ol style="list-style-type: none">(1) all contract audit reports that include questioned costs or recommendations and require contracting officer action except for those involving contractor estimates of future costs, agreed-upon procedures, or advisory services, and(2) all audit reports that supplement a previously issued reportable audit report are reportable, regardless of whether the supplemental audit report includes findings, recommendations, questioned costs, or potential cost avoidance. Auditors should issue a supplemental report when there is a significant change in audit findings. A supplemental report supersedes the prior audit report in the Agency's system of record; therefore, auditors should not use other communication methods such as email because these will not be reflected and tracked in the Agency's system of record.
Required Change	(48 CFR 9903.201-6(a)(2)). A change in CAP that a contractor is required to make in order to comply with applicable Standards, modifications or interpretations thereto, that subsequently becomes applicable to an existing CAS-covered contract or subcontract due to receipt of another CAS-covered contract or subcontract; or a prospective change to a disclosed or established CAP when the CFAO determines that the former practice was in compliance with applicable CAS and the change is necessary for the contractor to remain in compliance.
Truthful Cost or Pricing Data	(FAR 30.001). Historical title of prior act was Truth in Negotiations Act (TINA). 41 U.S.C. 35 changed the title to Truthful Cost or Pricing Data (reference FAR 1.110).
Unilateral Change	(48 CFR 9903.201-6(b)(2)). A change in CAP from one compliant practice to another compliant practice that a contractor

with CAS-covered contract(s) or subcontract(s) elects to make that has not been deemed a desirable change by the CFAO and for which the Government will pay no aggregate increased costs.

REFERENCES

Code of Federal Regulations, Title 48
DCMA Manual 2201-04, "Contract Audit Follow Up," November 25, 2022, as amended
DCMA Manual 2201-05, "Boards of Review," December 20, 2021
DCMA-Manual 2401-01, "Negotiation Intelligence Procedures," July 31, 2023
DCMA Manual 2501-01, "Contract Receipt and Review," February 1, 2022
DCMA Manual 2501-09, "Contract Claims and Disputes," March 26, 2018
DCMA Manual 2501-10, "Contract Debt," January 3, 2022, as amended
DCMA Manual 3301-08, "Information Security," January 20, 2019
DCMA Manual 4501-04, Volume 1, "Records and Information Management Program," April 16, 2021
DCMA Manual 4501-04, Volume 2, "Records Retention Schedule," April 14, 2021
Defense Federal Acquisition Regulation Supplement 230.201-5
DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," March 2, 2023, as amended
DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," April 15, 2015, as amended
FAR 1.110
FAR 1.704
FAR Part 30
FAR 30.001
FAR 30.101
FAR 30-201-4
FAR 30.201-5(b)
FAR 30.202
FAR 30.202-6(a)
FAR 30.202-7(a)(2)
FAR 30.202-7(b)(2)
FAR 30.202-8
FAR 30.602
FAR 30.603
FAR 30.603-1
FAR 30.603-1(c)(2)
FAR 30.603-1(d)(2)
FAR 30.603-2
FAR 30.603-2(a)(1)
FAR 30.603-2(b)
FAR 30.603-2(b)(3)
FAR 30.603-2(c)
FAR 30.603-2(c)(2)
FAR 30.603-2(d)
FAR 30.603-2(e)
FAR 30.604
FAR 30.604(d)-(h)
FAR 30.604(i)
FAR 30.605

FAR 30.605(b)
FAR 30.605(b)(1)
FAR 30.605(b)(2)
FAR 30.605(b)(4) and (c through h)
FAR 30.605(b)(4)(i)(ii)
FAR 30.605(e)
FAR 30.605(g)
FAR 30.605(h)(1) and (2)
FAR 30.605(i)
FAR 30.606
FAR 30.606(a)
FAR 30.606(a)(2)
FAR 30.606(b)(1)
FAR 30.606(c)
FAR 30.606(d)
FAR Part 31
FAR 32.206(b)
FAR 33.211
FAR 52.230
FAR 52.230-1
FAR 52.230-2
FAR 52.230-2(a)(5)
FAR 52.230-2(d)
FAR 52.230-3
FAR 52.230-3(a)(4)
FAR 52.230-4
FAR 52.230-5
FAR 52.230-6
FAR 52.230-6(b)
FAR 52.230-6(d)
FAR 52.230-7
United States Code, Title 10, Section 2325
United States Code, Title 26, Section 6621
United States Code, Title 41
U.S. Government Accountability Office 18-568G, “Government Auditing Standards,” July 2018