



DCMA Manual 2201-02

Cost Accounting Standards Administration

Office of Primary Responsibility	Indirect Cost Control Capability
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Purpose: This issuance, in accordance with the authority in DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)":

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

SUMMARY OF CHANGES

This Manual has substantive changes. The most notable changes that have been incorporated are as follows:

- Revised Paragraph 3.3., to add language addressing the steps the Cognizant Federal Agency Official needs to take if there has been a change to the contractor's Cost Accounting Standards Administration status
- Rearranged Paragraphs 3.6., and 3.7., from the original DCMA-MAN 2201-02, dated February 7, 2019, issuance so that the manual flows in a more logical manner
- Revised Paragraph 3.6., to add additional clarifying language for Non-Cost Accounting Practice Changes and Adequacy/Inadequacy of Disclosure Statement revisions and CBAR updates
- Added Section 4 which addresses record retention

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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 (DCMA- INST) 2201, “Indirect Cost Control,” to assign detailed responsibilities and provide procedures for DCMA Cost Accounting Standards (CAS) administration. DCMA administrative contracting officers (ACO) assigned as the cognizant Federal agency 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) and 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. Verify applicability of CAS and Disclosure Statement (DS) requirements.
- b. Verify appropriate CAS clauses are incorporated in CAS-covered contracts during contract receipt and review.
- c. Verify whether a contract is subject to full CAS or modified CAS and whether a DS is required.
- d. Monitor whether contractors are consistently following their Cost Accounting Practices (CAPs) under all of their CAS-covered contracts.
- e. Ensure CAPs are disclosed in writing when required.
- f. Ensure noncompliances and CAP changes are administered equitably and uniformly.
- g. Issue a contracting officer’s final decision (COFD) stating the agency’s position on any CAS related contractual issue that cannot be resolved.
- h. Execute the policies and procedures in this Manual in a safe, efficient, effective, and ethical manner.

1.3. TRACKING AND COORDINATION. To comply with requirements to maintain contract audit follow-up system records 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 the CBAR manual and training.
- b. Create a record and document all CAS related submissions, audit memorandums and reports, and all associated contracting officer actions, in the Audit Issue Tracking (AIT) eTool (or other agency designated database tracking system). See Resource Page for AIT Guidance and Data Entry.

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

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. Promptly seeking assistance from assigned DCMA legal counsel ensures legal adequacy and, in particular, 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 Cognizant Federal Agency Official (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 in DCMA-INST 134, “Boards of Review,” (DCMA-INST 134 to be replaced by DCMA-MAN 2201-05, “Boards of Review”) which is found on the main Resource Page of DCMA-INST 2201, “Indirect Cost Control.”

SECTION 2: RESPONSIBILITIES

2.1. CONTRACT MANAGEMENT OFFICE (CMO) COMMANDER/DIRECTOR, COST AND PRICING REGIONAL COMMAND DIRECTOR OR SPECIAL PROGRAMS COST AND PRICING CENTER DIRECTOR. The CMO Commander/Director, Center Director, or Special Programs Cost and Pricing Center Director must:

a. Ensure the organizational component performance of CAS administration for all contracts and subcontracts of a business unit under its cognizance.

b. Ensure the ACO promptly seeks legal advice from assigned DCMA legal counsel on any CAS noncompliance issues to ensure legal adequacy and, in particular 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 resolution and disposition requirements of CAS noncompliance audits IAW DCMA-MAN 2201-04 and DoDI 7640.02.

d. Ensure AIT records, 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 in the AIT eTool, or other DCMA designated database tracking system.

2.2. CMO CONTRACTS DIRECTOR, CORPORATE/DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER (CACO/DACO) DIVISION DIRECTOR OR SPECIAL PROGRAMS COST AND PRICING CENTER CACO/DACO TEAM SUPERVISOR. The CMO Contracts Director, CACO/DACO Division Director or Special Programs Cost and Pricing Center 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 prenegotiation objectives or COFD to ensure the objective or decision is adequately supported and documented.

e. Ensure compliance with the BoR requirements, when applicable. See DCMA-INST 134 Boards of Review (DCMA-INST 134 to be replaced by DCMA-MAN 2201-05) found on the main Resource Page of DCMA-INST 2201.

f. Ensure status of CAS coverage and status of the DS are documented in the CBAR eTool.

g. Ensure AIT records, 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 DCMA Contract Audit Follow Up (CAFU) eTool (or other agency repository) 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. COGNIZANT FEDERAL AGENCY OFFICIAL, ADMINISTRATIVE CONTRACTING OFFICER, DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER, CORPORATE ADMINISTRATIVE CONTRACTING OFFICER (CFAO/ACO/DACO/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 cost accounting practice.

e. Issue a determination on the adequacy of an initial DS, generally within 30 calendar days after receipt of the submission.

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. 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. Legal review is not required when the auditor provides a written statement of concurrence to the ACO's determination. Send a copy of the Defense Contract Audit Agency (DCAA) audit in the request for legal review.

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

l. Create and maintain a current record in the AIT eTool (or other agency designated database tracking system) 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 issued. A demand for payment may be applicable 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 DCMA CAFU system IAW DCMA-MAN 2201-04 and DoDI 7640.02.

n. Document in a Memorandum for Record (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 DCMA-INST 134 (DCMA-INST 134 to be replaced by DCMA-MAN 2201-05).

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. COST & PRICING REGIONAL COMMAND DISCLOSURE STATEMENT TEAM (DST). When requested by the ACO, the DST must support ACO DS adequacy and compliance reviews as follows:

a. Upon receipt of an ACO written request for assistance, the Cost & Pricing Regional Command's DST Team Lead will assign the request to a DST member.

b. The DST member will assist the ACO in reviewing a contractor's DS revision(s) for adequacy and/or compliance. The rationale of the DST 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 all ACO final decisions and determinations of CAS noncompliance.

b. Review all ACO demands for payment to ensure proper statement of a claim by the Government.

c. Review determinations of CAS noncompliance, Government demands for payment, Government settlement positions, COFDs, and other ACO determinations, actions and notifications that address actual or potential contractor liability, IAW this Manual and the CAS Process and Decision Matrix found on this Manual's Resource Page.

d. 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.

e. Advise the ACO of the date a potential Government accrual of a claim occurred, assuring protection of the Government's rights, on the basis of 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 Matters	
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 Costs	
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 General & Administrative 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 (OFPP). 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. The CASB regulations are codified at 48 CFR, Chapter 99 (FAR Appendix). FAR 30.201-4 prescribes the appropriate CAS FAR 52.230 contract clauses.

c. FAR Part 30. FAR Part 30 describes the policies and procedures for applying the CASB rules and regulations to negotiated contracts and subcontracts. The CASB 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 Cost Accounting Practices. See FAR 30.101. Contracts and subcontracts exempted from CASB's 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).

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, but has accepted a request for delegation of CAS administration responsibility from a procuring activity, the ACO must perform CAS administration and make all CAS related determinations for all contracts and subcontracts of the business unit. Otherwise, the procuring activity is responsible for the CAS administration.

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, Cost & Pricing Regional Command DST, 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 reviewed by audit 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 DST, 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 DST assistance for CAS noncompliance and accounting change cost impact reviews, as appropriate.

(4) If audit or DST assistance is requested for DS revisions or CAS noncompliances, but cannot be provided in a timely manner to support resolution of potential issues, the ACO must proceed to complete the review.

(5) The ACO may request assistance from the DST outlying DS concerns, when needed. Requests for assistance from the DST may be made by the ACO through an email request to the designated DST coordinator. The request should include the ACO's written summary of the issue(s) on which assistance is desired. The ACO and DST may decide DCAA assistance is necessary. Information, history, and clarifications regarding the DS revision can also be requested of DCAA. See the Resource Page for contact information on the DST.

(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, United States Code, 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. Note that 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). 48 CFR 9903.201-1(b)(4) exempts contracts and subcontracts with foreign governments or their agents or instrumentalities from all CAS requirements.

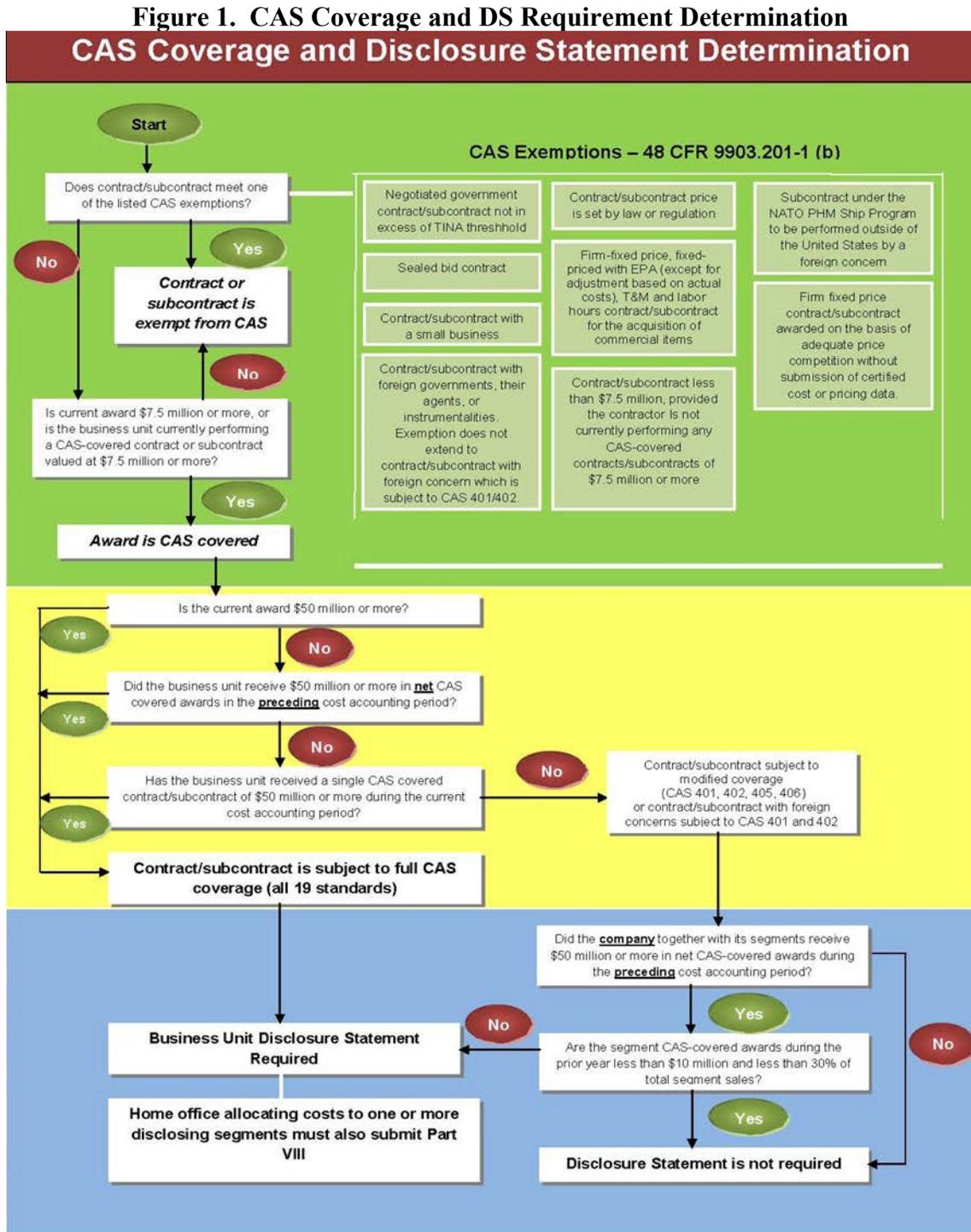


Table 2. CAS Coverage

CAS Coverage (48 CFR 9903.201-1) (See exemptions in 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>Note: Net awards means 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>Note: 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.</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.</p>

c. During contract receipt and review, the ACO must ensure/verify the applicable CAS clauses are incorporated into the contract and notify the CFAO of the existence of the CAS- covered contract. 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.

d. If the appropriate clauses are not included in the contract, the ACO must initiate a contract deficiency report (CDR) IAW DCMA-MAN 2501-01, “Contract Receipt and Review.” These 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: (a) 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.

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 must 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 DISCLOSURE STATEMENT SUBMISSION REQUIREMENT.

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 in these forms information on its operations and specific information on the contractor's accounting for specific types of costs.

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. 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 DISCLOSURE STATEMENT 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 review 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/report and discussion between the parties, DCAA will review and report on whether the initial DS is in compliance with CAS and FAR Part 31. The ACO must issue the written adequacy determination before DCAA can release the audit report on compliance.

c. AIT (or other Agency designated tracking system). The ACO must also ensure that a record is created in the AIT eTool (or other agency designated tracking system) of the initial DS and must document and maintain current the status of review and other actions in the AIT record. The AIT Guidance & Data Entry instructions from the Resource Page must be used when entering information into the AIT records. AIT records should 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 date should be entered in the "Notice of Accounting Change/Noncompliance Date" field of the AIT record or other agency designated tracking system.

(2) Once a date has been entered in the "Notification of Accounting Change/CAS Noncompliance Date" for the accrual date 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 in order 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 supplemented 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 notify the contractor in writing 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) See the Resource Page for a template of the ACO's determination of adequacy of an initial Disclosure Statement Submission letter.

e. **Compliant DS.** Once the ACO makes a determination 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 of the Cost Monitor or Price/Cost Analyst, must review the audit report and document the ACO's position/determination on both the adequacy and 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 auditor office and the affected PCO if the DS submission was triggered by a proposal. See the Resource Page for the template, "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.

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 the DCMA CBAR eTool 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 DISCLOSURE STATEMENT 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 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 are administrative in nature and/or enhance the description of the contractor's CAPs as described below:

(1) Non-CAP (formerly referred to as Admin Changes). Non-substantive changes do not affect the description of a cost accounting practice. These changes do not alter the assignment, allocation or measurement of cost as defined at 48 CFR 9903.302-1. Examples of non-CAP changes include name and address changes, change in point of contact, additional language for clarification, pagination updates, punctuation changes, and level of CAS-covered government sales in Part 1 of the DS, some organizational changes, and initial adoption or elimination of cost, functions, or segments. 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 cost accounting practices. 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 cost accounting practices and the DS was previously determined adequate and compliant. A notification template is located on the DCMA-MAN 2201-02 Resource Page.

(2) Description 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 9903.302-1. An ACO adequacy determination of enhanced descriptions should 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 cost accounting practice has not changed and has already been determined compliant.

(3) Initial Adoptions: An initial adoption of a cost accounting practice is not considered a cost accounting practice change however because a determination of adequacy and compliance of the practice has not been made in the past as part of the initial DS review or any subsequent revisions it should be reviewed for both adequacy and compliance and an ACO determination should be issued. A review for adequacy and compliance may be necessary for other organizational changes depending on the circumstance. An adequacy and compliance determination template is provided on the Resource Page.

NOTE: Many Disclosure Statements 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. AIT (or other Agency designated tracking system). The ACO must also ensure that a record of the DS revision documenting the CAP change is created in the AIT eTool (or other DCMA designated database tracking system) upon receipt of the submission and must document and maintain the current status of review and other actions in the AIT record. A single AIT record is maintained and updated throughout the entire business process (e.g., one AIT 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 from 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 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 the Resource Page must be used in determining adequacy of the revised DS.

(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. 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 on the basis of 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 a noted 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.

NOTE: 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. CAUTION: This, obviously, will disrupt and delay normal procurement processes and such action should, therefore, not be taken unless it is based on substantive issues.

(3) Compliance. A DS revision is compliant if the CAPs described in the revision complies 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, Cost & Pricing Regional Command DST, and other subject matter experts).

(4) DST and Audit Services. See Paragraph 3.2.d.(5) of this Manual for DST assistance request requirements. Generally the ACO will seek assistance from the DST if needed. If it 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 memorandum to file in the Agency's approved record management system 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 memorandum 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 on the basis of the ACO's verbal request or the change has already been implemented, the ACO must notify the contractor in writing that, if implemented, 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.k., 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 AIT eTool (or other DCMA designated database tracking system). It should be noted that 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/Cost and Pricing Regional Command CACO/DACO Team Supervisor or Special Programs Cost and Pricing Center 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., memorandums for record, 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 memorandum to file, 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. CAFU & CBAR eTool/Tracking System. 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 the CBAR eTool 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.

NOTE: 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. CAUTION: This, obviously, will disrupt and delay normal procurement processes and such action should, therefore, not be taken unless it is based on substantive issues.

3.7. CHANGES TO DISCLOSED OR ESTABLISHED COST ACCOUNTING PRACTICES.

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. 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

Organizational changes may result in CAP changes. Assistance is available from the DST or DCAA in determining whether a CAP change has been made.

c. AIT (or other Agency designated tracking system). The ACO must also ensure that a record of the DS revision documenting the CAP change is created in the AIT eTool (or other DCMA

designated database tracking system) upon receipt of the submission and must document and maintain the current status of review and other actions in the AIT record. See Paragraph 3.5.c.

d. 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 Table 4. Please note that corrections to CAS noncompliances are not to be treated as CAP changes as defined at FAR 30.603.

Table 4. Types 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, or a 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 note above for Required change.
NOTE: 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.

(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 shall not receive an equitable adjustment that will result in increased costs in the aggregate to the Government prior to the applicability date” 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, as a result of the unilateral change.” Accordingly, correction of CAS noncompliances 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. (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. (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 as provided in the Changes clause of the contract. Associated management actions that also have an impact on contract costs should be considered when negotiating adjustments (48 CFR 9903.201-6(c)(3)). If the ACO determines the CAP change is not a desirable change, the change must be

considered to be 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. Please note that the 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 Disclosure Statement 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 General Dollar Magnitude (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.k., 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.

(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, Cost & Pricing Regional Command DST, 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 AIT eTool (or other DCMA designated database tracking system) 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.

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); and

(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/Cost and Pricing Regional Command CACO/DACO Team Supervisor or Special Programs Cost and Pricing Center 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. See Paragraph 3.9.k., 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 AIT eTool (or other DCMA designated database tracking system). It should be noted that 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/Cost and Pricing Regional Command CACO/DACO Team Supervisor or Special Programs Cost and Pricing Center 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.

h. **Retroactive Changes.** The CAS clauses FAR 52.230-2 and 52.230-3 require the contractor to apply any CAP changes prospectively only to subject contracts. FAR 30.603-2(d) permits retroactive unilateral changes if approved by the ACO, 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(e) states that the disclosure requirements in FAR 52.230-6(b) must be followed. Consult with local legal counsel or DST 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 Guidebook located on the main DCMA-INST 2201 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.

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. A copy of the notice to auditor or contractor must be maintained in the contract file. See FAR 30.605(b)(1). The notice of potential noncompliance must notify the contractor of the exact nature of the noncompliance and request a 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).

c. **AIT (or other Agency designated tracking system).** The ACO must also ensure that a record of the alleged CAS noncompliance review or audit report is created in the AIT eTool (or other DCMA designated database tracking system) and must document and maintain current the status of review in the AIT 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 memorandum 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. See the Resource Page for the CAS Noncompliance letter template, 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.k., regarding materiality determination), the ACO must proceed pursuant to FAR 30.605(b)(4)6. The ACO must inform the contractor in writing 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 AIT 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 has been resolved, the ACO must request the contractor to 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.

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 Steering Committee (CLG SC) 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, in particular, 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. COFD. The U.S. Court of Federal Claims and the Armed Services Board of Contract Appeals (ASBCA) 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. If a determination of CAS noncompliance is issued to a contractor, and not determined to be immaterial, 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.

k. 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

l. Interest. The contractor must 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).

m. 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.

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

o. CAFU Tracking. The ACO must disposition CAS noncompliance audit reports in the CAFU eTool (or other DCMA designated database tracking system) upon issuing a determination of compliance/noncompliance IAW DCMA-MAN 2201-04 and DoDI 7640.02. In the event the CAFU eTool is superseded, use the applicable subsequent agency designated database.

3.9. RESOLVING COST IMPACTS OF CAP CHANGES & 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. 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 DST assistance as appropriate, must estimate the GDM of the cost impact (often referred to as a Rough Order of Magnitude (ROM)) on affected CAS-covered contracts and apply the remedies prescribed at FAR 30.604(i) and Paragraph 3.8.h., of the Manual. See ROM Best Practices on the Resource Page.

c. Cost Impact Resolution. The ACO must negotiate and resolve cost impacts on behalf of all Government agencies with impacted contracts. The ACO will prepare a pre-negotiation objectives memorandum (PNOM) in preparation for, and a price negotiation memorandum (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. See the Resource Page for templates on 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 cost accounting practice 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 an alternate method instead of adjusting contracts to resolve the cost impact, provided the Government will not pay more, in the aggregate, than would be paid if the CFAO did not use the alternate method and the contracting parties agree on the use of that 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) Be subject to a DCMA BoR, the DCMA-INST 134 (DCMA-INST 134 to be replaced by DCMA-MAN 2201-05) is found on the main Resource Page of DCMA-INST 2201.

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. If the parties negotiate a settlement, its terms should be memorialized in a settlement agreement signed by the ACO and the contractor.

(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 of Settlement.** 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 take action 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 (DFAS) and DCMA Contract Dispute Resolution Center (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 in order to suspend the imposition of the statutory time bar for a specified time period. This means that the specified period of time 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 of DCMA-INST 2201, for additional guidance.

i. **Review by Assigned Legal Counsel.** The ACO must coordinate with assigned legal counsel to ensure adequacy of the claim and, in particular, 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, settlement agreements with demands for payment, COFDs, demand for payment letters 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 SC/CDRC review.

j. **CAFU Tracking.** Upon settlement of the cost impact or issuance of the COFD, the ACO must disposition any associated cost impact audit reports in the CAFU eTool (or other DCMA designated database tracking system) IAW DCMA-MAN 2201-04 and DoDI 7640.02. In the event the CAFU eTool is superseded, use the applicable subsequent agency designated database.

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 is immaterial, the ACO must make a written determination that the cost impact resulting from the CAP change or CAS noncompliance is immaterial and the business process is complete.

(1) Materiality determinations (FAR 30.602) must be made using the criteria 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 must be considered. 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.

1. 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 (CDS) Submission Checklist.

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-INST 809, "Records Management" (DCMA-INST 809 to be replaced by 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-INST 809 (DCMA-INST 809 to be replaced by DCMA-MAN 4501-04, Volume I), 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-INST 809 (DCMA-INST 809 to be replaced by 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 and 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. DEFINITIONS.

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. (FAR 30.001). 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.

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).

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.

Noncompliance. (FAR 30.001). A failure in estimating, accumulating, or reporting costs to comply with applicable CAS or consistently follow disclosed or established CAPs.

Required Change. (FAR 30.001). 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. (FAR 30.001). 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.

GLOSSARY

G.2. ACRONYMS AND INITIALISMS

ACO	Administrative Contracting Officer
AIT	Audit Issue Tracking
BoR	Boards of Review
CACO	Corporate Administrative Contracting Officer
CAFU	Contract Audit Follow Up
CAP	Cost Accounting Practices
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
CMO	Contract Management Office
COFD	contracting officer's final decision
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
DS	Disclosure Statement
DST	Disclosure Statement Team
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

ROM	Rough Order of Magnitude
U.S.C.	United States Code

REFERENCES

Code of Federal Regulations, Title 48
DCMA Instruction 134, "Boards of Review," October 15, 2012, as amended
DCMA Instruction 809, "Records Management," May 1, 2011
DCMA Manual 2201-04, "Contract Audit Follow Up," March 3, 2019
DCMA Manual 2201-05, "Boards of Review," TBD
DCMA-Manual 2401-01, "Negotiation Intelligence Procedures," December 20, 2018
DCMA Manual 2501-01, "Contract Receipt and Review," March 24, 2019
DCMA Manual 2501-09, "Contract Claims and Disputes," March 26, 2018
DCMA Manual 2501-10, "Contract Debt," April 13, 2018
DCMA Manual 3301-08, "Information Security," January 21, 2019
DCMA Manual 4501-04, Volume 1, "Records and Information Management Program," TBD
DCMA Manual 4501-04, Volume 2, "Records Retention Schedule," TBD
Defense Federal Acquisition Regulation Supplement 230.201-5
DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013
DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports," April 15, 2015
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)
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