A recently published **Memorandum for Regional Directors** (MRD) announces what most of us have known for some time: DCAA is exiting the business of reviewing contractors' CASB Disclosure Statements for adequacy. Instead, that responsibility is moving over to DCMA, because Administrative Contracting Officers over there have so much free time on their hands.

As we all know, DCAA lacks sufficient resources to perform its audit workload; never mind the fact that the FAR Council keeps adding to that workload (even though public comments from folks such as Apogee Consulting, Inc. try to apprise them of that fact). So of course it makes perfect sense for the audit agency to descope its workload wherever possible, in order to focus on more important audits that generate questioned costs that can be reported to Congress each year.

In fairness and in the name of accuracy, we have to report that DCAA will still be evaluating the adequacy of contractors' Disclosure Statements. However, that evaluation will not be part of the audit scope.

What?

No, really.

Here, let us quote from the MRD:

We no longer will evaluate adequacy as part of the scope of any Disclosure Statement audit (Activity Code 19100). Instead, audit teams will review the submission for adequacy prior to accepting the engagement. The objective of a Disclosure Statement audit will be solely to determine whether the disclosed practices comply with Cost Accounting Standards (CAS). …

As part of determining whether to accept the engagement, the audit team will review whether the contractor's submission is adequate by:

- determining whether the contractor followed the Disclosure Statement form instructions (see Conformity of Disclosure Statement with General Instructions tool);

- determining whether contractor disclosures are consistent (see Internal Consistency of Disclosed Practices in a Disclosure Statement tool); and

- gaining a thorough understanding of the basis of the described practices, usually during the contractor's walkthrough of the submission.

Note that DCAA has created some "tools" to help auditors with their adequacy submission. We checked and those tools are not currently available to the public on the **DCAA website** . So we don't know their format or content. But we suspect the new tools will be much like other DCAA tools. In other words, we expect more checklists that help auditors do their jobs without the necessity of using professional judgment.

Importantly, the auditors are directed to use their tools and understanding to determine whether the contractor's Disclosure Statement is "current, accurate, and complete." That's kind of amusing, really, because you can't find that phrase anywhere in the CAS Board regulations. DCAA kind of just made it up and then decided it was the *sine qua non* of Disclosure Statements.

So the auditors will use their tools and understanding to evaluate Disclosure Statement adequacy and to prepare a Memo to the Cognizant Federal Agency Official (CFAO) documenting their evaluation.

Yes, you read that correctly. Even though the adequacy evaluation is out of scope, the evaluation process will result in yet another Memo being issued. (** *SIGH* **) The Memo, whose conclusions will be based on out-of-scope procedures guided by "black box" tools whose inner workings are not fit for public knowledge, guided by a goal that cannot be found in the CAS Board regulations, will result in a recommendation to the cognizant Contracting Officer regarding the adequacy of the Disclosure Statement.

Only if DCAA and the CFAO reach an agreement on adequacy will the actual CAS compliance review actually begin. Yes, you read that correctly. All of the foregoing procedures are simply a precursor to the *real* DCAA review. (Although in fairness the MRD does say that the compliance review can continue so long as an agreement is reached on adequacy before the end of the review.)

We wish we were making this up.

But we are not.

What if the auditors and the CFAO disagree on the adequacy of the contractor's Disclosure Statement?

Well, the presumption in the MRD is that the auditors and CFAO will agree. If they agree the Disclosure Statement is adequate, then the review proceeds. If they agree it is inadequate, then the contractor will resubmit its Disclosure Statement and "the audit team will reassess the contractor's revised submission for adequacy." There is no guidance regarding what to do if the CFAO thinks the Disclosure Statement is adequate but the auditors do not.

Perhaps another Review Board?

And what about the notion that the auditors will participate in a "walkthough" of the Disclosure Statement? According to the MRD, the contractor is supposed to describe its intended cost accounting practices and provide "policies and procedures" that support those practices. Certainly, a couple of Cost Accounting Standards do require specified policies and procedures (e.g., describing direct versus indirect costs), but we are unaware of any CAS Board regulations that require all disclosed cost accounting practices to be supported with written policies and procedures. Indeed, the CAS Board regulations use the phrase "established or disclosed" to highlight the fact that what matters is the actual practices themselves and not words on a page.

Moreover, we are unaware of any requirement that contractors must participate in a nebulous "walkthrough" exercise in order to support a DCAA audit of a Disclosure Statement. While we generally applaud the notion that auditors must understand what they are auditing, we also subscribe to the time-honored notion that "the document speaks for itself". Obviously there is a balance between making the auditors happy and indulging in a non-value-added exercise simply to check-off a box on the audit program, but we have become disenchanted with "walkthroughs" and will be devoting an article to this recent DCAA fad in the near future.

We realize that our analysis of the recent revision to DCAA audit guidance has exhibited our usual restraint and subtlety. So let's bottom-line our assessment: Not the best audit guidance we've seen.

Indeed, it's kind of a hot mess, isn't it?